

Factsheet 31 August 2022

# NIKKO AM GLOBAL BOND STRATEGY

Assets are held in the Nikko AM NZ Wholesale Global Bond Fund. Nikko AM Global Bond Fund (retail) invests in units in the wholesale fund, which this commentary refers to.

## Market Overview (source: GSAM)

- US Federal Reserve (Fed) Chair, Jerome Powell dispelled near term prospects of a policy pivot. Powell stressed that the Federal Open Market Committee (FOMC) remains committed to “restoring price stability” and acknowledged that this may require “a restrictive policy stance for some time”. Elsewhere, energy related downside risks remain at the forefront of financial market focus as the evolution of the European gas supply situation deteriorates.

## Fund Highlights

- The portfolio underperformed the benchmark by 15bps over the month of August, returning -2.8%.
- This was driven by our Cross Sector and Government/Swaps selection strategies, respectively.
- Our Corporate selection strategy was the largest contributor to performance.

## Performance

	One month	Three months	One year	Three years (p.a.)	Five years (p.a.)	Ten years (p.a.)
Wholesale <sup>1</sup>	-2.82%	-2.20%	-11.59%	-1.53%	1.62%	3.74%
Benchmark <sup>2</sup>	-2.67%	-1.73%	-9.97%	-2.27%	0.78%	3.26%
Retail <sup>3</sup>	-2.27%	-2.54%	-12.06%	-2.27%	0.82%	

1. Returns are before tax and before the deduction of fees. Based on actual calendar periods.

2. Benchmark: Bloomberg Barclays Global Aggregate Index, hedged into NZD. No tax or fees.

3. Returns are before tax and after the deduction of fees and expenses and including tax credits (if any). Based on change in unit price.

## Five Year Cumulative Performance, \$10,000 invested<sup>1, 2</sup>



## Investment Manager

Nikko AM NZ uses Goldman Sachs Asset Management Australia Pty Ltd (GSAM) for the management of global fixed interest assets. Established in 1988, GSAM is one of the world’s leading asset managers. GSAM’s Global Fixed Income Team manages over US\$525 billion of global fixed income and currency assets.

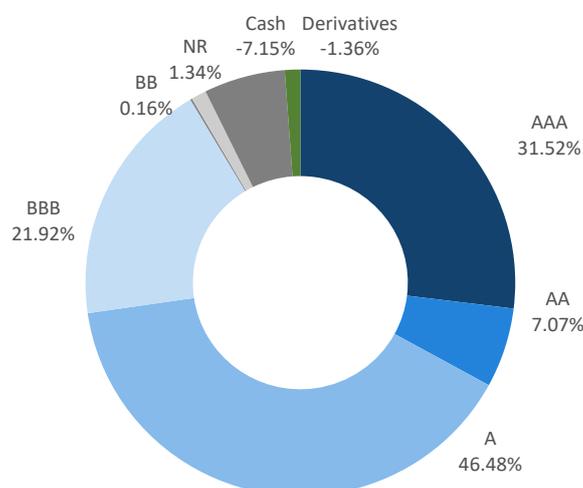
## Overview

The Strategy aims to provide investors with regular income by constructing an actively managed investment portfolio of permitted investments, with the potential for capital gain from global fixed interest markets.

## Objective

The Strategy aims to outperform the benchmark return by 1% per annum before fees, expenses and taxes over a rolling three-year period.

## Credit Quality



Sector Allocation (% of fund)	Fund	Index
Governments	33.75	44.98
Agency	2.80	7.82
Collateralised & MBS	31.98	12.62
Credit	28.68	19.61
Emerging market debt	11.30	14.87
Cash, derivatives, other*	-8.51	0.09

\*includes deferred settlements

Duration
Fund 6.29 years vs Benchmark 6.84 years

Yield to Maturity
Fund (gross) 5.85% vs Benchmark 4.39%

### Market Commentary (source: GSAM)

At the Jackson Hole Economic Symposium, US Federal Reserve (Fed) Chair, Jerome Powell dispelled near term prospects of a policy pivot. Powell stressed that the Federal Open Market Committee (FOMC) remains committed to “restoring price stability” and acknowledged that this may require “a restrictive policy stance for some time”. Elsewhere, energy related downside risks remain at the forefront of financial market focus as the evolution of the European gas supply situation deteriorates.

The Bank of England (BoE) joined peers including central banks in New Zealand, Norway, and Australia in delivering a larger-than-usual 50bps rate hike in August. The European Central Bank (ECB) were no exception, raising interest rates by 75bps to 0.75% at their early September meeting, its highest level since 2011.

Since the July Fed meeting, risk assets rebounded somewhat as concerns around policy overtightening and growth weakness diminished. Indeed, the more balanced outlook for Fed policy offered some relief, however, market sentiment retraced amid hawkish policymaker commentary. For context, US investment grade (IG) spreads tightened by 17bps post the Fed meeting. Spreads retraced this outperformance in the latter half of August widening by 11bps over sovereigns. Similarly, US high yield spreads tightened by 60bps followed by a widening of 87bps.

### Fund Commentary (source: GSAM)

The portfolio returned -2.82% over August, underperforming the benchmark by 15bps. This was driven by our Cross Sector and Government/Swaps selection strategies, respectively. Our Corporate selection strategy was the largest contributor to performance.

Our Cross Sector strategy detracted from performance. This was driven by our overweight exposure to corporate credit whereby our views were expressed in credit derivatives versus cash bonds. Against a deteriorating macro backdrop, credit derivatives sold off to a greater extent versus cash counterparts. This was largely driven by technical factors. Cash bonds were supported by low supply and liquidity.

Our Government/Swaps selection strategy was a detractor over the month driven by the underperformance of US Treasury bonds versus swaps. As the basis in these assets widened we saw a negative return attributed to the bonds we hold in the portfolio.

Our Corporate selection strategy outperformed. This was due to our down-in-quality bias to US and European investment grade credits. Following a repricing lower of recession risk, investment grade corporate spreads tightened. We do not foresee large scale downgrades of BBB-rated companies into the high yield market and our analysis suggests that fallen angel risks are contained due to conservative capital management. As such, we maintain a down-in-quality bias and are overweight BBB-rated bonds.

Key Fund Facts			
<b>Distributions</b>		<b>Estimated annual fund charges (incl. GST)</b>	
Wholesale fund:	Calendar quarter	Wholesale:	Negotiated outside of unit price
Retail fund:	Calendar quarter	Retail:	0.80%, refer PDS for more details
<b>Hedging:</b>	All investments will be hedged to New Zealand dollars within an operational range of 98.5% - 101.5%.	<b>Buy / Sell spread</b>	<b>Strategy size</b>
		0.00% / 0.00%	\$435.2m
<b>Restrictions:</b>	Thermal coal mining and extraction, oil tar sands extraction, ‘controversial weapons’, tobacco stocks and fossil fuels. For more information, please refer to the Statement of Investment Policy and Objectives (SIPO) on our website <a href="https://www.nikkoam.co.nz/invest/retail">https://www.nikkoam.co.nz/invest/retail</a> .		
		<b>Strategy Launch</b>	October 2008

### Compliance

The fund complied with its investment mandate and trust deed during the month.

### Contact Us

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