nikko am
Nikko Asset Management

Factsheet 30 November 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)

- Financial markets rallied in November on hopes of a peak in policy hawkishness (given tentative signs of easing inflation) and a peak in growth bearishness (due to raised prospects of China relaxing stringent activity restrictions), with most fixed income spread sectors tightening over the month. Given the global environment, the US dollar was a laggard, trending down amid risk-on market sentiment.

Fund Highlights

- The portfolio outperformed the benchmark by 78bps over November. This was driven by our Cross Sector and Corporate selection strategies. By contrast, our Emerging Market Debt (EMD) selection strategy detracted from excess returns.

Performance

	One month	Three months	One year	Three years (p.a.)	Five years (p.a.)	Ten years (p.a.)
Wholesale[1]	3.14%	-1.13%	-11.76%	-1.75%	1.29%	3.48%
Benchmark[2]	2.36%	-1.55%	-11.00%	-2.47%	0.41%	2.92%
Retail[3]	2.43%	-2.11%	-12.65%	-2.68%	0.34%	-

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.

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

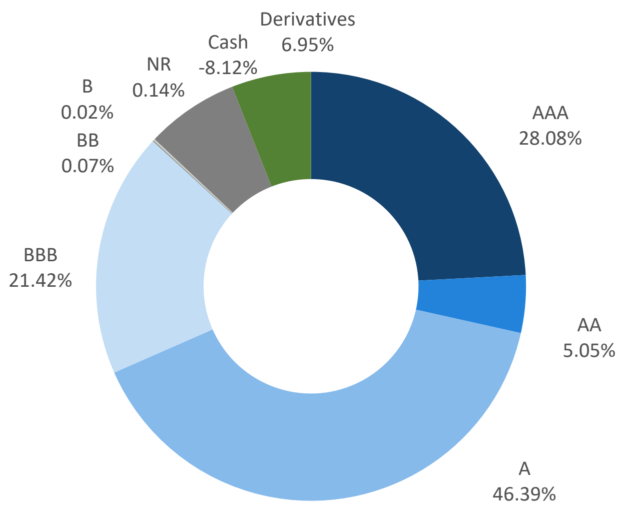
The Strategy aims to provide investors with regular income by constructing an actively managed investment portfolio of permitted investments, with the potential for capital gain from global fixed interest markets.

Objective

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

Five Year Cumulative Performance, $10,000 invested[1, 2]

Credit Quality



Sector Allocation (% of fund)	Fund	Index
Governments	39.1	45.1
Agency	3.0	7.8
Collateralised & MBS	27.1	12.4
Credit	28.5	19.9
Emerging market debt	3.5	14.6
Cash, derivatives, other*	-1.2	0.2

*includes deferred settlements

Duration
Fund 6.61 years vs Benchmark 6.75 years

Yield to Maturity
Fund (gross) 5.92% vs Benchmark 4.95%

Market Commentary (source: GSAM)

Broad messaging from policymakers suggests a strong preference to slow the pace of interest rate hikes and evaluate the impact of the tightening delivered year-to-date. Both the US Federal Reserve (Fed) and Bank of England (BoE) delivered 75bps hikes in November with the former hinting to a slower pace but higher peak and the latter suggesting a lower peak than markets priced. Further Federal Open Market Committee (FOMC) commentary and news of tempering US inflation led markets to call for a downshift in the Fed's pace of rate hikes after four consecutive 75bps rate hikes. Two-year US Treasury yields rallied 17bps over the month to close at 4.3%.

As developed market (DM) central banks utilise a data dependent approach to help navigate rate setting, we think the resilience of labour markets and evolution of sticky inflation will drive bond markets going forward. We expect a 50bp Fed rate hike in December with an expected terminal rate of 4.75%-5%. We also expect the European Central Bank (ECB) to hike by 50bps in December, with a terminal rate of 2.5%. Lastly, we expect the BoE to lift rates by 50bps at their December meeting with a terminal rate of 4.5%.

Financial markets rallied in November on hopes of a peak in policy hawkishness (given tentative signs of easing inflation) and a peak in growth bearishness (due to raised prospects of China relaxing stringent activity restrictions), with most fixed income spread sectors tightening over the month. Given the global environment, the US dollar was a laggard, trending down amid risk-on market sentiment.

We expect inflation to peak in most major economies and begin the process of normalising through 2023. This will allow monetary policy to become less of a headwind as central banks slow or pause tightening. However, we are seeing signs of slowing activity and confidence in the macro picture remains fragile. Therefore, we used recent strength as an opportunity to reduce credit exposures whilst increasing the extent to which we balance spread.

Fund Commentary (source: GSAM)

The portfolio outperformed the benchmark by 78bps over November. This was driven by our Cross Sector and Corporate selection strategies. By contrast, our Emerging Market Debt (EMD) selection strategy detracted from excess returns.

Outperformance of our Cross Sector strategy was driven by our overweight exposure to spread sectors which included investment grade (IG) corporate credit and collateralized loan obligations (CLO), and the balance component of our Cross Sector strategy also contributed with US rate yields coming lower. Hopes of a slowdown in further monetary tightening and positive sentiment on growth following China's fine-tuning of its long-standing zero-Covid policy benefited risk assets over November. Spreads on the Bloomberg Global Aggregate Corporate Index tightened by 28bps to end the period at 153bps over sovereigns. Likewise, AAA-rated and BBB-rated CLO spreads tightened by 30bps and 64bps, respectively. Our Corporate selection strategy also contributed to excess returns. This was driven by our overweight bias to shorter-dated maturity IG corporate bonds. Shorter-dated IG corporate bond spreads narrowed over November; 1-3 year and 3-5 year maturities by 23bps and 22bps, respectively.

By contrast, our EMD selection strategy underperformed. This was driven by our underweight exposure to local China bonds. Broadly, Chinese assets staged strong outperformance over November. On a total return basis, China local rates returned +1.2% over the month while the Chinese yuan strengthened against the US dollar.

Key Fund Facts

Distributions:

Wholesale fund: Calendar quarter
Retail fund: Calendar quarter

Estimated annual fund charges (incl. GST)

Wholesale: Negotiated outside of unit price
Retail: 0.80%, refer PDS for more details

Hedging: All investments will be hedged to New Zealand dollars within an operational range of 98.5% - 101.5%.

Buy / Sell spread
0.00% / 0.00%

Strategy size
$420m

Strategy Launch
October 2008

Restrictions: 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 https://www.nikkoam.co.nz/invest/retail.

Compliance

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

Contact Us

www.nikkoam.co.nz | nzenquiries@nikkoam.com