Factsheet 31 January 2023

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)

- Sovereign bonds rallied over January on prospects of central banks nearing an end to their rate hiking cycles.
- Signs of disinflation tempered fears of renewed aggressive monetary tightening while China's reopening and abating recession risks in Europe have supported growth. As a result, fixed income assets, such as Asia credit and emerging market (EM) corporate bonds responded positively over January.

Fund Highlights

- The portfolio outperformed the benchmark by 58bps over January. This was driven by our Cross sector and Government/Swaps selection strategies while our Duration strategy detracted from excess returns.

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. The Goldman Sachs Asset Management Global Fixed Income Team managed over US$690 billion of global fixed income and currency assets (as at 30th September 2022).

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

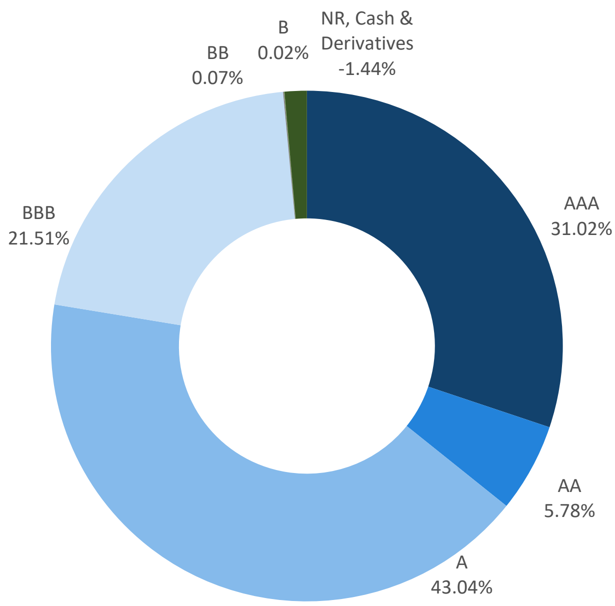
The Strategy aims to outperform the benchmark return by 1% per annum before fees, expenses and taxes over a rolling three-year period.

Performance

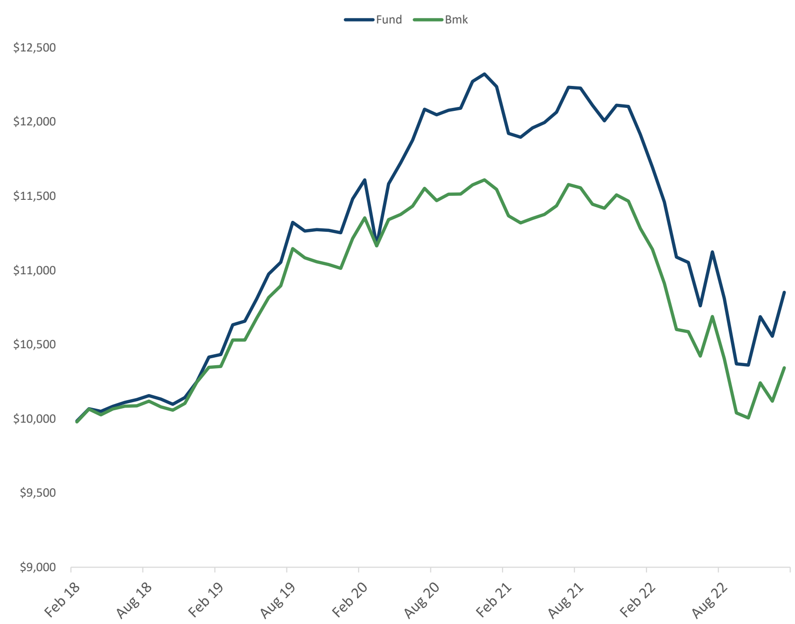
	One month	Three months	One year	Three years (p.a.)	Five years (p.a.)	Ten years (p.a.)
Wholesale[1]	2.80%	4.73%	-8.93%	-1.86%	1.65%	3.62%
Benchmark[2]	2.22%	3.37%	-8.32%	-2.66%	0.68%	3.02%
Retail[3]	2.54%	4.10%	-9.82%	-2.63%	0.75%	

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.

Credit Quality



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



Sector Allocation (% of fund)	Fund	Index
Governments	37.43%	44.88%
Agency	1.54%	7.77%
Collateralised & MBS	30.99%	12.20%
Credit	27.85%	19.93%
Emerging market debt	3.77%	15.13%
Cash, derivatives, other*	-1.57%	0.08%

*includes deferred settlements

Duration
Fund 5.99 years vs Benchmark 6.81 years

Yield to Maturity
Fund (gross) 5.29% vs Benchmark 4.74%

Market Commentary (source: GSAM)

Sovereign bonds rallied over January on prospects of central banks nearing an end to their rate hiking cycles. At their early February meetings, the Fed stepped down its pace of rate hikes further from 50bps to 25bps. The central bank's statement indicated "ongoing" rate hikes as appropriate, a modest hawkish surprise. However, the Fed also acknowledged disinflation was underway and Federal Chair, Jerome Powell, suggested further rate hikes will be determined meeting-by-meeting. As widely expected, the European Central Bank (ECB) hiked rates by 50bps with there being "more ground to cover" on policy tightening. Elsewhere, the Bank of England (BoE) delivered a dovish 50bps rate hike; the outsized rate increase was accompanied by a significant shift in language on the path ahead. Lastly, at their January meeting, the BoJ maintained all ultra-easy monetary policy parameters, including yield curve control (YCC), asset purchase programs and negative interest rate policy (NIRP).
Risk assets started the year on a strong note. Signs of disinflation tempered fears of renewed aggressive monetary tightening while China's reopening and abating recession risks in Europe have supported growth. As a result, fixed income assets, such as Asia credit and emerging market (EM) corporate bonds responded positively over January. Credit markets also responded favourably with US investment grade spreads tightening by 13bps and with notable strength in US high yield (HY) bonds; crowned the best performing asset class in the US fixed income market year-to-date (YTD). Notwithstanding strong fundamentals and supportive technical factors, we remain cautious on our asset allocation given still-elevated macro uncertainty, particularly concerning the lagged impact of prior monetary tightening. We favour less cyclical assets that benefit from lower rate volatility such as investment grade (IG) bonds and agency mortgage-backed securities (MBS). We also see value in short-duration bonds where returns tend to turn around before an end in the rate hiking cycle. We are constructive on high yield (HY) credit given healthy fundamentals and benign default risks but remain selective given downside growth risks.

Fund Commentary (source: GSAM)

The portfolio outperformed the benchmark by 58bps over January. This was driven by our Cross sector and Government/Swaps selection strategies while our Duration strategy detracted from excess returns. Outperformance of our Cross-sector strategy was driven by our overweight beta to investment grade (IG) corporate credit and collateralized loan obligations (CLO), as well as our rates exposure whereby we hedge our spread sector exposure with an overweight to US Treasuries. Credit and rates markets outperformed (see Market recap) while AAA-rated CLO spreads tightened by 26bps. Our Government/Swaps strategy also contributed to excess returns. This was driven by our preference for Japanese bills, that on a cross currency hedged basis, provided pick up over equivalent US Treasury bills. Our US curve steeper position also contributed, supported by market anticipation for the Fed's hiking cycle to near its peak. Our Duration strategy was the largest detractor. This was driven by our tactical auction strategy among US rates and our directional underweight to Japanese rates. Following unchanged policy at their January meeting, Japanese yields fell, marginally challenging our position.

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
$470m

Strategy Launch
October 2008

Exclusions: Controversial weapons.
Restrictions: Thermal coal mining and extraction, oil tar sands extraction, 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

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