Factsheet 31 March 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)

- March was a volatile month for rates. Amid strong US data early in the month, Federal Reserve (Fed) Chair Jerome Powell initially opened the door to tighter monetary policy than previously anticipated, causing terminal rates to reprice higher for longer and 2-year US Treasury yields to breach 5% for the first time since 2007.
- The Fed hiked rates by 25bps, projected a weak economic outlook for the rest of 2023, and struck a more cautious tone on the forward path for the funds rate. Fed policy rate pricing declined across the curve following the meeting, and increasingly moved to price rate cuts before year-end.

Fund Highlights

- The portfolio outperformed its benchmark over Q1 2023. This was driven by our Corporate selection and Cross Sector strategies, respectively. By contrast, our Securitized selection 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.

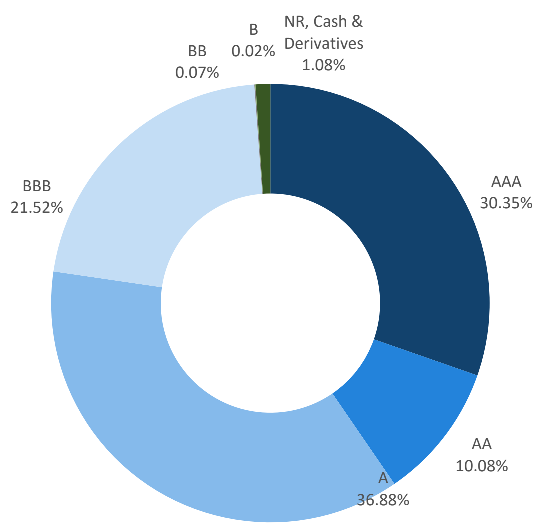
Performance

	One month	Three months	One year	Three years (p.a.)	Five years (p.a.)	Ten years (p.a.)
Wholesale[1]	2.32%	3.13%	-5.01%	-0.84%	1.58%	3.48%
Benchmark[2]	2.19%	2.67%	-4.79%	-2.37%	0.64%	2.91%
Retail[3]	1.87%	2.64%	-5.61%	-1.84%	0.68%	

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[1, 2]

Credit Quality



Sector Allocation (% of fund)	Fund	Index
Governments	35.87%	45.01%
Agency	1.57%	7.83%
Collateralised & MBS	30.25%	12.02%
Credit	27.30%	19.88%
Emerging market debt	4.08%	15.13%
Cash, derivatives, other*	0.94%	0.13%

*includes deferred settlements

Duration
Fund 6.11 years vs Benchmark 6.83 years

Yield to Maturity
Fund (gross) 5.59 % vs Benchmark 5.01%

Market Commentary (source: GSAM)

The moderate market volatility and 'Goldilocks' backdrop of easing inflation, steady growth and anticipation of a slower pace of monetary tightening of January was short-lived. February saw strength in growth and labour market data which generated higher rate volatility as markets anticipated a bumpier path to disinflation and higher-for-longer rate environment. March was a volatile month for rates. Amid strong US data early in the month, Federal Reserve (Fed) Chair Jerome Powell initially opened the door to tighter monetary policy than previously anticipated, causing terminal rates to reprice higher for longer and 2-year US Treasury yields to breach 5% for the first time since 2007. That said, rates momentum reversed sharply into the month as investors sought safe-haven securities amid US and European banking stress. From their cycle peak, short-end rates fell by over 100bps.

We anticipate cautiousness and a data-dependent approach from policymakers given financial stability concerns. Despite the Fed pressing ahead with a 0.25% rate hike, we see considerable uncertainty on the path ahead. Should banking stress gradually fade through Spring, the Fed may revert to our previously expected path for a terminal rate of 5.25-5.5%. But if tighter credit conditions weigh on economic growth, the Fed may only follow through with one further rate hike. We continue to expect a terminal rate of 3.75% for the ECB but expect risks to be finely balanced between a 25bps and 50bps hike at the May meeting and flag uncertainty around our forecast given recent events. Meanwhile, we expect the BoE to stay on hold after their 0.25% rate rise given the expected drag on growth from past policy tightening and recent financial market volatility.

We have tempered exposure to fixed income spread sectors, either by increasing the extent to which we balance our exposures with rates, or by reducing exposure outright. Overall, our risk stance is defensive, and the composition of our exposures is up-in-quality, favouring assets like investment grade credit and agency mortgage-backed securities that tend to benefit from lower rate volatility and exhibit resilience to slowing growth.

Fund Commentary (source: GSAM)

The portfolio outperformed its benchmark over Q1 2023. This was driven by our Corporate selection and Cross Sector strategies, respectively. Corporate selection strategy outperformance was driven by our positioning among investment grade (IG) credit via credit derivatives, particularly over March. Credit derivatives outperformed on the month, tightening by 3bps on a volatility-adjusted basis. This reflected the difference in sector composition between credit derivative and cash bond indices, with the former including no banks, whereas banks makeup around 25% of the US IG index (widening due to banking sector stress). Our Cross-Sector strategy also contributed to excess returns. This was driven by our sector overweight to IG paired with an overweight to US Treasuries. IG spreads staged a strong performance in January on positive sentiment around the macro-outlook, namely falling European gas prices and the reopening of China's economy. Elsewhere, 10-year US Treasuries outperformed with yields falling from 3.9% to 3.5% over the quarter. Elsewhere, underperformance of our Securitized selection strategy was driven by our selection among agency mortgage-backed securities (MBS) passthrough securities. This was largely driven by our overweight production versus discount coupon 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
$476.m

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 quarter.

Contact Us

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