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Nikko Asset Management

YOUR GOALS,
OUR COMMITMENT.

Nikko AM Global Bond Strategy

Monthly Update 31 May 2025

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

- May was a strong month for most financial assets, with credit spreads tightening, although they remained wider than the tight levels observed in February.
- US Treasuries faced challenges due to renewed concerns about the fiscal trajectory with the 30-year yield hitting an intra-day high of 5.15% amid a broader global selloff for long-end bonds.
- Emerging Markets spreads tightened due to positive returns driven by lower oil prices, a weaker US Dollar, and expectations of interest rate easing.

Fund Highlights

- The portfolio outperformed the benchmark over May 2025.
- Outperformance was driven by our Duration, Government Swaps and Cross Sector strategies.

Performance

	One month	Three months	One year	Three years (p.a.)	Five years (p.a.)	Ten years (p.a.)
Wholesale[1]	-0.29%	-0.27%	6.07%	2.97%	0.58%	3.10%
Benchmark[2]	-0.42%	0.00%	5.48%	2.16%	-0.16%	2.31%
Retail[3]	-0.34%	-0.17%	5.56%	2.01%	-0.15%	2.22%

1. Returns are before tax and before the deduction of fees and including tax credits (if any). 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. 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

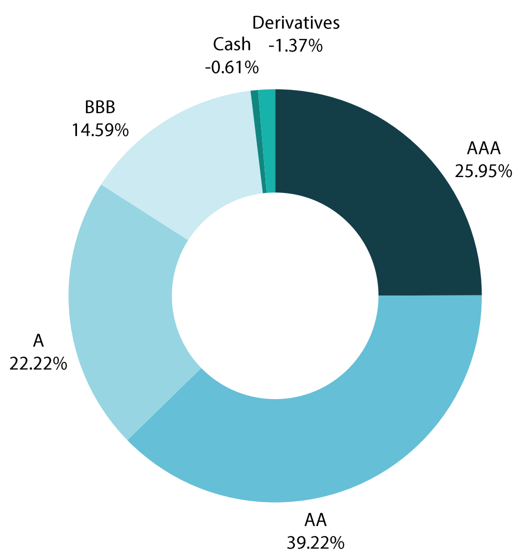
The Strategy aims to provide investors with regular income by constructing an actively managed investment portfolio of permitted investments, with the potential for capital gain from global fixed interest markets.

Objective

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

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

Credit Quality



Sector Allocation (% of fund)	Fund	Index
Governments	39.55%	44.69%
Agency	4.15%	7.96%
Collateralised & MBS	37.55%	10.76%
Credit	16.87%	20.23%
Emerging market debt	3.86%	16.35%
Cash, derivatives, other	-1.98%	0.00%

*Includes deferred settlements

Duration
Fund 5.78 years vs Benchmark 6.37 years

Yield to Maturity
Fund (gross) 4.14% vs Benchmark 3.58%

Market Commentary

May was a strong month for most financial assets, with credit spreads tightening, although they remained wider than the tight levels observed in February. US Treasuries faced challenges due to renewed concerns about the fiscal trajectory with the 30-year yield hitting an intra-day high of 5.15% amid a broader global selloff for long-end bonds. US Treasuries posted their first month of negative return for 2025. Weak auctions for new supply in the US and Japan also contributed to the rise in yields against a backdrop of ongoing quantitative tightening. European bunds experienced a volatile month, initially selling off on strong Eurozone data and inflation concerns but rallied later in May due to potential tariffs from the US, with markets pricing in a near-certain 25bps ECB rate cut in June. UK gilt yields rose as robust UK economic data - particularly higher-than-expected CPI, reduced expectations for BoE rate cuts despite an actual 25bps cut coupled with hawkish messaging. The BoJ held rates steady but signalled potential hikes, while JGBs rallied late in May on talks of reduced ultra-long issuance, despite concerns about Japan's fiscal situation.

In the US, the Fed last changed the federal funds rate in December 2024, and if the economy avoids second-round inflation effects and unemployment rises steadily, two Fed rate cuts seem plausible. In the UK, the BoE is expected to stick to its quarterly easing pace for now, speeding up to a consecutive-meeting pace from November, with risks that this acceleration comes sooner as inflation momentum falls back from mid-year and in light of global growth risks from tariffs. In Europe, the ECB lowered its policy rates by 25bps for the eighth time in this cycle, and downside risks to both domestic and global growth from tariffs—combined with ongoing disinflation—will prompt the ECB to deliver additional rate cuts. In Japan, domestic activity is holding up for now, while inflation is reaccelerating well above target, and if tariffs are rolled back and recent market stability holds, then we expect the BoJ to resume hiking later this year.

May saw a positive shift in sentiment in investment grade credit markets, driven by easing trade tensions and resilient macroeconomic data. This resulted in spread tightening and positive excess returns. Emerging Markets spreads tightened due to positive returns driven by lower oil prices, a weaker US Dollar, and expectations of interest rate easing. Similarly, Agency MBS spreads tightened slightly amid volatility, while securitized credit spreads tightened across the board, reflecting a risk-on sentiment.

Fund Commentary

The portfolio outperformed the benchmark in May 2025. This was driven by our Duration, Government Swaps and Cross Sector strategies.

Our Duration strategy outperformed, driven by our underweight position in 5-year Japanese rates. In Japan, the BoJ held rates steady in May, though signalled that further rate hikes may be required in response to rising inflation. Additionally, our tactical month end auction strategy contributed to returns.

Our Government Swaps strategy also contributed, driven by our European steepener positions.

Finally, our outperformance of our Cross Sector strategy was driven by our overweight bias to securitized assets such as CMBS and CLOs, as spread sectors outperformed off the back of positive trade headlines and a more optimistic growth picture relative to April.

Key Fund Facts

Estimated annual fund charges (incl. GST)	
Wholesale: **Retail:**	Negotiated outside of the unit price. 0.80%, refer to PDS for more details.
Distributions:	
Wholesale: **Retail:**	Calendar quarter Calendar quarter

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

Strategy Launch:	October 2008
Strategy size:	$984m
Buy / Sell spread:	0.00%/0.00%

Compliance

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

Contact Us

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