

# Nikko AM Global Bond Strategy

Monthly Update 30 June 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

- June saw an improved economic sentiment, fuelled by potential EU-US trade deals, strong investor demand, and positive technical factors boosting bond performance. May was a strong month for most financial assets, with credit spreads tightening, although they remained wider than the tight levels observed in February. April was a volatile month for fixed income markets across the globe.
- The ECB executed a rate cut in early June but signalled a moderately hawkish outlook, suggesting we may be near the end of the cutting cycle. This indicates a cautious, data-dependent approach to future policy decisions, balancing growth support with inflation management amidst ongoing economic uncertainties. In May the ECB lowered its policy rates by 25bps, repeating the 25bps cut it made in April.

## Fund Highlights

- The fund outperformed the benchmark in the second quarter of 2025.
- Outperformance was driven by Duration, Cross Sector and Corporate Selection strategies.

## Performance

	One month	Three months	One year	Three years (p.a.)	Five years (p.a.)	Ten years (p.a.)
<b>Wholesale<sup>1</sup></b>	1.04%	1.43%	6.07%	4.25%	0.53%	3.29%
<b>Benchmark<sup>2</sup></b>	0.86%	1.32%	5.47%	2.98%	-0.09%	2.51%
<b>Retail<sup>3</sup></b>	0.88%	1.19%	5.03%	3.57%	-0.26%	2.39%

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.

## 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. 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).

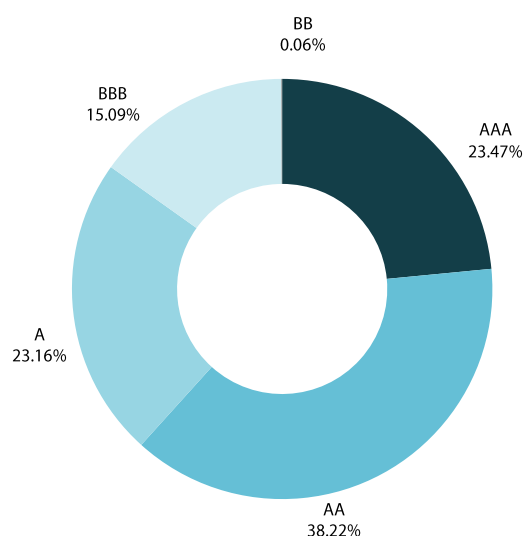
## Overview

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.

## Credit Quality



Sector Allocation (% of fund)	Fund	Index	Duration
Governments	33.72%	44.72%	Fund 6.03 years vs Benchmark 6.36 years
Agency	3.94%	8.02%	<b>Yield to Maturity</b>
Collateralised & MBS	43.68%	10.71%	Fund (gross) 4.22% vs Benchmark 3.92%
Credit	19.13%	20.26%	
Emerging market debt	3.83%	16.29%	
Cash, derivatives, other	-4.30%	0.00%	

\*Includes deferred settlements

## Market Commentary

The biggest US trade war in 100 years and unpredictable White House policies unsettled the markets in the first half of 2025. Q2 2025 was marked by significant market volatility and rapid shifts in sentiment due to a series of catalysts, including US tariffs, rising long-end government bond yields, and geopolitical uncertainties. Since April, positive trade-related developments, including a 90-day pause on reciprocal tariff being introduced, trade negotiations, and pushback from a court order suggest that trade policy uncertainty may have peaked in April. Despite initial selloffs driven by heightened uncertainty and fears of economic deterioration, the outlook improved over the quarter, leading to a recovery in financial asset performance. This recovery was supported by tariff de-escalation, a resilient US economy, a Fed willing to respond to labour market weakness, stabilization of long-end bond market volatility, and the avoidance of worst-case geopolitical scenarios. Enthusiasm for AI-related capital expenditure has also buoyed broader risk sentiment. At the beginning of the quarter, the April 2nd US tariff announcement triggered a sharp "risk-off" reaction. Global bonds showed resilience despite rising long-dated bond yields, driven by concerns about investor demand amid central bank quantitative tightening programs and continued US fiscal expansion. A reciprocal tariff pause later in April helped stabilise markets, leading to tighter credit spreads. Throughout this period, the US dollar weakened, with the DXY Index posting its worst first half of the year since 1973. Investors also faced escalating geopolitical tensions in the Middle East and fiscal concerns during Q2. Brent crude oil prices briefly spiked 7% on June 13th due to fears of supply disruptions from potential conflict between Israel and Iran, before settling at \$67 a barrel by month end. This episode highlighted that market impacts of geopolitical tensions tend to be short-lived unless worst-case scenarios - such as severe commodity supply disruptions - materialise. Moody's downgrade of the US credit rating to Aa1 on May 16th, coupled with the passage of the One Big Beautiful Bill Act (OBBBA) in early July, reinforced concerns about the US fiscal path, characterised by rising deficits and debt levels.

Credit spreads returned to cycle lows, while yields remained high relative to recent history, creating income opportunities. While the Fed held policy steady, monetary easing outside the US led to lower government bond yields in other G10 economies. EM local bonds also performed well, returning 12.3% in the first half of the year, benefiting from a weaker US dollar and declining EM rates. The quarter ended with fixed income markets overall experiencing positive returns in June, driven by rallying rates and spreads, with risk assets outperforming Treasuries amidst market volatility.

## Fund Commentary

The fund outperformed the benchmark in the second quarter of 2025. This was driven by Duration, Cross Sector and Corporate Selection strategies. Outperformance of the Duration strategy was driven by the tactical month end auction strategy in April and May. The fund's underweight position in 5-year Japanese rates in May also contributed to excess returns. In Japan, the BoJ held rates steady in May, though signalled that further rate hikes may be required in response to rising inflation.

The Cross Sector strategy outperformed over the quarter. In May, the fund's overweight bias to securitised 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. Additionally, in June the credit hedge outperformed. Rates rallied over the month as optimism grew that tariff pass-through to consumers may be smaller than originally feared. US CPI provided better-than-expected data from last month, increasing the number of cuts priced in by the Fed's December meeting, which coupled with dovish Fed comments and a soft batch of other US data supported the rally in Treasuries. Lastly, the Corporate Selection strategy also contributed to excess returns. This was due to the implementation of fund managements corporate credit views.

## Key Fund Facts

<b>Estimated annual fund charges (incl. GST)</b>		<b>Hedging:</b>	All investments will be hedged to New Zealand dollars within an operational range of 98.5% - 101.5%.	<b>Strategy Launch:</b>	October 2008
<b>Wholesale:</b>	Negotiated outside of the unit price.	<b>Exclusions:</b>	Controversial weapons.	<b>Strategy size:</b>	\$1,000.69m
<b>Retail:</b>	0.80%, refer to PDS for more details.	<b>Restrictions:</b>	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 <a href="https://www.nikkoam.co.nz/invest/retail">https://www.nikkoam.co.nz/invest/retail</a> .	<b>Buy / Sell spread:</b>	0.00%/0.00%
<b>Distributions:</b>					
<b>Wholesale:</b>	Calendar quarter				
<b>Retail:</b>	Calendar quarter				

## Compliance

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

## Contact Us

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