

Factsheet 31 March 2021

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 is a busy month for central bank meetings and market focus was on the response of central banks to the global rate sell-off.
- Policymakers have for the most part leaned against market expectations for premature policy normalization.
- We have entered a period of positive macro data momentum as encouraging vaccine rollout allows for a normalization in economic activity.
- Given growth improvements have yet to move from forecast to fact, we think it would be premature to step back from pro-cyclical exposures.

Fund Highlights

- The portfolio outperformed its benchmark over the month, driven by Country and Securitised Selection strategies whilst Cross-Sector strategy detracted from excess returns.

Performance

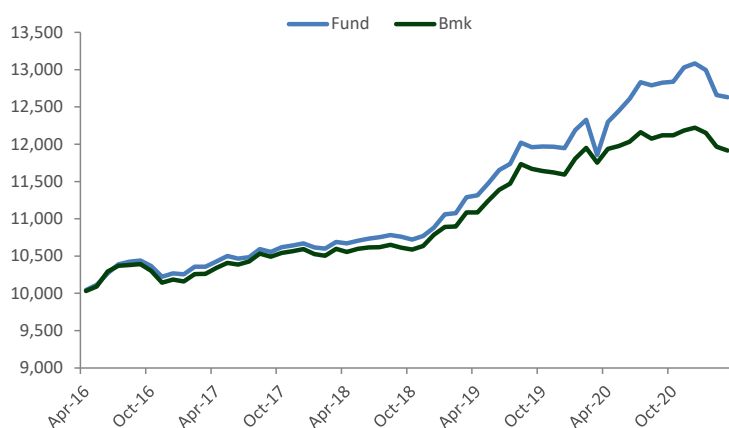
	One month	Three months	One year	Three years (p.a.)	Five years (p.a.)	Ten years (p.a.)
Wholesale ¹	-0.21%	-3.45%	6.54%	5.72%	4.78%	6.07%
Benchmark ²	-0.41%	-2.49%	1.39%	3.99%	3.57%	5.53%
Retail ³	-0.09%	-3.76%	5.15%	4.77%	3.79%	

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}



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.

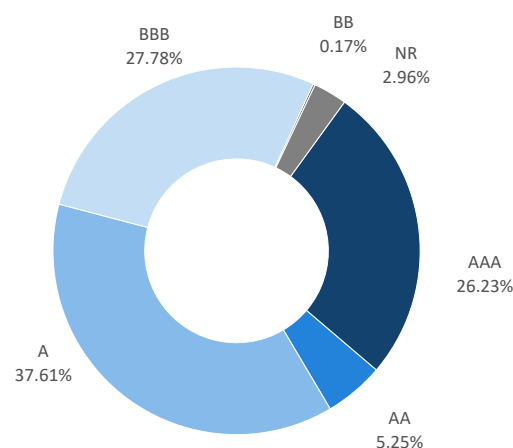
Overview

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.

Credit Quality



Sector Allocation (% of fund)	Fund	Index
Governments	33.33%	46.22%
Agency	1.11%	8.46%
Collateralised & MBS	26.06%	11.31%
Credit	34.79%	20.33%
Emerging market debt	10.31%	13.68%
Cash, derivatives, other	-5.60%	0.00%

*includes deferred settlements

Duration
Fund 7.77 years vs Benchmark 7.25 years

Yield to Maturity
Fund (gross) 2.16% vs Benchmark 1.27%

Market Commentary (source: GSAM)

March is a busy month for central bank meetings and market focus was on the response of central banks to the global rate sell-off. Policymakers have for the most part leaned against market expectations for premature policy normalization. For example, the Federal Reserve (Fed) cemented its dovish policy stance at its March meeting and continues to stress the importance of patience in response to an improved macro outlook. Elsewhere, Reserve Bank of Australia (RBA) Governor Lowe explicitly disagreed with market-implied pricing for RBA policy. We have entered a period of positive macro data momentum as encouraging vaccine rollout allows for a normalization in economic activity. That said, we still have large output and labor market gaps to fill. As such, we see limited prospects of central bank rate hikes in major advanced economies in the coming year. Additionally, sustainability themes—the climate transition and pursuit of inclusive growth—have dovish monetary and expansionary fiscal policy implications. Given growth improvements have yet to move from forecast to fact, we think it would be premature to step back from pro-cyclical exposures. We are overweight corporate credit and securitized credit sectors, while neutral on Agency mortgage backed securities (MBS) and selectively positioned across emerging market debt (EMD). Among macro markets, we are positioned for convergence between high rate and low rate markets. We are overweight pro-cyclical currencies from select Asian, G10, and EM economies.

Fund Commentary (source: GSAM)

The portfolio outperformed its benchmark over the March month but under-performed over the quarter. Cross sector allocation was the main detractor (-0.66%) over the quarter, followed by Country allocation (0.15%) and Duration strategy (0.15%). The underperformance of the Cross-Sector strategy was due to our credit-rate paired approach where overweight exposure to credit sectors is hedged with a long US rates position. The rates component detracted from performance as US rates continued to edge higher – particularly over February. This rise in US rates followed acceleration in the US vaccination timeline, improving business sentiment surveys in March, and President Biden’s plans for an infrastructure spending package.

Key Fund Facts			
Distributions		Estimated annual fund charges (incl. GST)	
Wholesale fund:	Calendar quarter	Wholesale:	Negotiated outside of unit price
Retail fund:	Calendar quarter	Retail:	0.84%, refer PDS for more details
Hedging		Buy / Sell spread	Strategy size
All investments will be hedged to New Zealand dollars within an operational range of 98.5% - 101.5%.		0.00% / 0.00%	\$412.6m
Exclusions: Investments in tobacco manufacturers and ‘controversial weapons’. For more information please refer to the Statement of Investment Policy and Objectives (SIPO) which can be found on our website https://www.nikkoam.co.nz/invest/retail .		Strategy Launch	October 2008

Compliance

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

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