Nikko Asset Management

Factsheet 30 April 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)

- At the April Federal Open Market Committee (FOMC) meeting, the US Federal Reserve (Fed) was more upbeat given improving economic data amid re-opening.
- Since the global rate sell-off in March, US Treasury yields have trended lower despite strong US data releases.
- Meanwhile, European rates have underperformed, as Europe has joined the 'rebound bandwagon' alongside the US and UK amid reopening and an acceleration in the vaccine rollout across the region.

Fund Highlights

- The portfolio outperformed its benchmark over the month by 27 basis points.
- Cross-Sector and Country strategies were the most significant contributors to the fund's positive performance.
- The fund's Emerging Market Selection strategy detracted from the fund's 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. 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

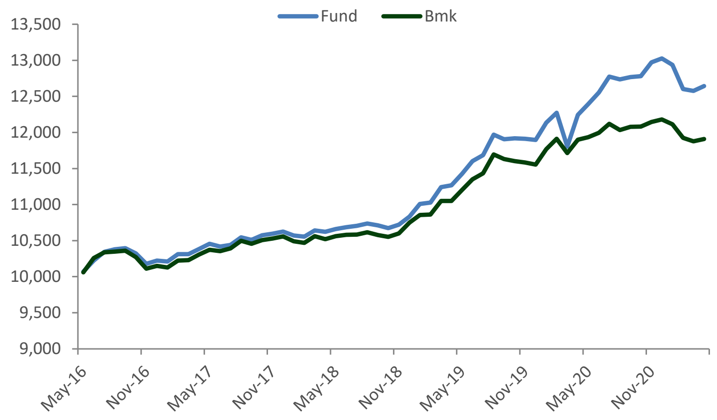
The Strategy aims to outperform the benchmark return by 1% per annum before fees, expenses and taxes over a rolling three-year period.

Performance

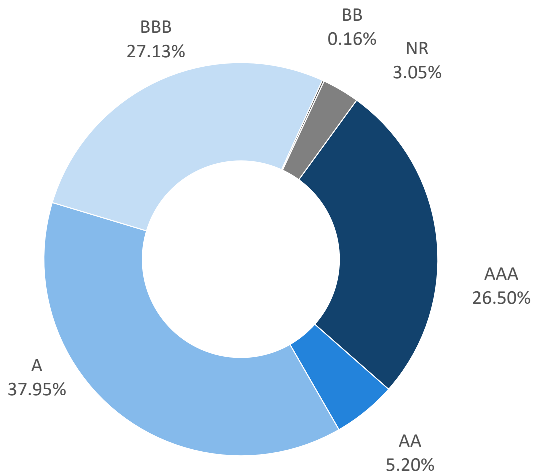
	One month	Three months	One year	Three years (p.a.)	Five years (p.a.)	Ten years (p.a.)
Wholesale[1]	0.53%	-2.27%	3.25%	5.97%	4.80%	6.01%
Benchmark[2]	0.26%	-1.69%	0.07%	4.22%	3.55%	5.45%
Retail[3]	0.51%	-2.72%	2.51%	5.01%	3.80%	

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	35.13%	46.28%
Agency	0.77%	8.41%
Collateralised & MBS	24.88%	11.23%
Credit	33.22%	20.39%
Emerging market debt	10.00%	13.68%
Cash, derivatives, other	-4.01%	0.00%

*includes deferred settlements

Duration
Fund 7.76 years vs Benchmark 7.23 years

Yield to Maturity
Fund (gross) 2.16% vs Benchmark 1.23%

Market Commentary (source: GSAM)

At the April Federal Open Market Committee (FOMC) meeting, the US Federal Reserve (Fed) was more upbeat given improving economic data amid re-opening, but did not hint at tapering asset purchases given it still needs to see "substantial progress" on its employment and inflation goals. In contrast, the Bank of Canada (BoC) became the first G10 central bank to formally begin monetary policy normalization by tapering its weekly asset purchases and pulling forward its rate hike guidance from 2023 to the second half of 2022. We believe this decision reflects traits that are unique to Canada and therefore has limited read-through to other G10 central banks. Since the global rate sell-off in March, US Treasury yields have trended lower despite strong US data releases. Meanwhile, European rates have underperformed as Europe has joined the 'rebound bandwagon' alongside the US and UK amid re-openings and an acceleration in the vaccine rollout across the region. We expect a synchronized growth upswing in developed market (DM) economies but divergent macro paths between emerging market (EM) and DM economies owing to virus spread in the former. Recent US economic data confirms that growth improvements are evolving from forecast to fact. Across key advanced economies, we expect inflation to trend higher in the coming months due to a series of transient factors including statistical base effects, higher oil prices, and pockets of services price pressures. However, we see prices settling back to their pre-pandemic subdued trend in the medium term due to labor market and output gaps that will take time to close.

Fund Commentary (source: GSAM)

The portfolio outperformed its benchmark over the month by 27 basis points. This was driven by our Cross-Sector and Country strategies whilst our Emerging Market Selection strategy detracted from excess returns. Our Cross-Sector strategy was the main contributor, owing to our credit-rate paired approach where overweight exposure to credit sectors is hedged with a long US rates position. Interest rates contributed to returns as US yields saw a general downtrend despite strong data releases during the month. Our overweight in Investment Grade corporates also contributed as IG credit spreads tightened modestly in April. Our Country strategy also outperformed. This was mainly due to our overweight Australian and US rates versus UK and European rates positioning as well as our long-end valuation strategy. Australian rates benefited from weaker-than-expected first quarter inflation data. On the other hand, the Australian labor market saw solid improvement, with the unemployment rate declining 20bps to 5.6% and the participation rate increasing 10bps to 66.3%. European rates underperformed higher yielding markets as the market continued to price in re-openings and an acceleration in the vaccine rollout. Our Emerging Market Selection strategy was the main detractor over the month, driven by our select overweight exposures in China.

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	Strategy size	Strategy Launch
0.00% / 0.00%	$415m	October 2008

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.

Compliance

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

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