

# 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)

- Fixed income investors grappled with two main surprises in May: remarkably strong US inflation data coupled with a disappointing April jobs report. In the near term, we expect pandemic-related dynamics (such as reopening, policy support, and temporary supply shortages) to continue to distort economic data.
- Despite the recent increase in inflation, US Treasury yields have been remarkably range-bound resulting in a low volatility environment. In addition, market-implied pricing for US Federal Reserve (Fed) policy has become more dovish.
- Elsewhere, the Reserve Bank of New Zealand (RBNZ) joined the Bank of Canada (BoC) in hinting at earlier than previously anticipated monetary policy normalization, highlighting pressure on central banks to retreat from ultra-dovish stances as economic data improves.

## Fund Highlights

- The portfolio outperformed its benchmark over the month of May, driven by our Cross Sector and Duration strategies whilst our Securitized Selection strategy detracted from excess returns
- Our Securitized Selection strategy was the main detractor over the month, driven by our specific selection of mortgage-backed securities, particularly Ginnie Mae securities.

## Performance

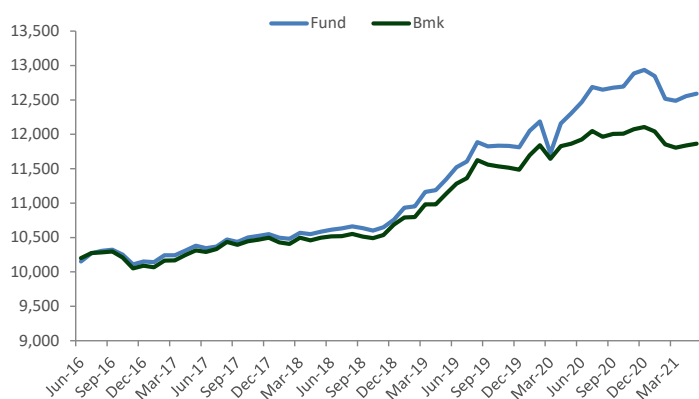
	One month	Three months	One year	Three years (p.a.)	Five years (p.a.)	Ten years (p.a.)
Wholesale <sup>1</sup>	0.30%	0.61%	2.31%	5.96%	4.72%	5.95%
Benchmark <sup>2</sup>	0.23%	0.08%	0.00%	4.16%	3.48%	5.35%
Retail <sup>3</sup>	0.25%	0.67%	1.63%	5.06%	3.76%	

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<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. GSAM's Global Fixed Income Team manages over US\$525 billion of global fixed income and currency assets.

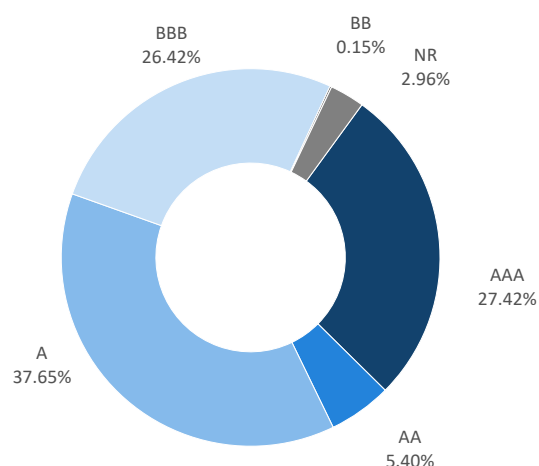
## Overview

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	38.26%	46.31%
Agency	0.89%	8.41%
Collateralised & MBS	21.47%	11.21%
Credit	32.15%	20.37%
Emerging market debt	10.08%	13.70%
Cash, derivatives, other	-2.85%	0.00%

\*includes deferred settlements

Duration
Fund 8.24 years vs Benchmark 7.27 years

Yield to Maturity
Fund (gross) 2.10% vs Benchmark 1.24%

### Market Commentary (source: GSAM)

Fixed income investors grappled with two main surprises in May: remarkably strong US inflation data coupled with a disappointing April jobs report. In the near term, we expect pandemic-related dynamics (such as reopening, policy support, and temporary supply shortages) to continue to distort economic data. Beyond near-term noise in the data, we expect inflation to settle back to its subdued trend in the medium term due to substantial slack to eliminate in the economy, anchored inflation expectations, and structural inflation forces.

Despite the recent increase in inflation, US Treasury yields have been remarkably range-bound resulting in a low volatility environment. In addition, market-implied pricing for US Federal Reserve (Fed) policy has become more dovish. This has benefited risk assets. Additionally, short-term inflation expectations have been picking up, while medium and long-term inflation expectations have been moderating; this is consistent with the Fed’s view that upward pressures on prices are transitory. We think the Fed will require more economic data to determine whether “substantial progress” has been made on employment and inflation goals before asset purchase taper discussions commence.

Elsewhere, the Reserve Bank of New Zealand (RBNZ) joined the Bank of Canada (BoC) in hinting at earlier than previously anticipated monetary policy normalization, highlighting pressure on central banks to retreat from ultra-dovish stances as economic data improves. Despite hawkish policy shifts in Canada and New Zealand, we expect the European Central Bank (ECB) to maintain its dovish policy stance for the foreseeable future and we continue to think rate hikes in the UK are a distant prospect. We are mindful that the Reserve Bank of Australia (RBA) may temper its ultra-dovish stance as incoming data improves.

### Fund Commentary (source: GSAM)

The portfolio outperformed its benchmark over the month of May, driven by our Cross Sector and Duration strategies whilst our Securitized Selection strategy detracted from excess returns. Our Cross Sector strategy was the largest contributor, owing to credit-rate paired approach where overweight exposure to credit sectors is hedged with a long US rates position. US rates benefitted from a combination of downside US data surprises (though data remains solid) as well as dovish commentary from Fed officials who continue to characterize the near-term inflation boost as transitory. Our overweight exposure in commercial mortgage-backed securities (CMBS) also contributed to performance as CMBS fundamentals continued to improve and spreads tightened.

Within our Duration strategy, excess returns were driven by our tactical over-weights in global rates, particularly in the US. Our overweight exposure in short-end Canadian rates also benefitted from the dovish central bank commentary over the month which led to periods of rallying in developed markets rates.

Our Securitized Selection strategy was the main detractor over the month, driven by our specific selection of mortgage-backed securities, particularly Ginnie Mae securities.

### Key Fund Facts

<b>Distributions</b>		<b>Estimated annual fund charges (incl. GST)</b>		
Wholesale fund:	Calendar quarter	Wholesale:	Negotiated outside of unit price	
Retail fund:	Calendar quarter	Retail:	0.80%, refer PDS for more details	
<b>Hedging</b>		<b>Buy / Sell spread</b>	<b>Strategy size</b>	<b>Strategy Launch</b>
All investments will be hedged to New Zealand dollars within an operational range of 98.5% - 101.5%.		0.00% / 0.00%	\$425m	October 2008
<b>Exclusions:</b> 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 <a href="https://www.nikkoam.co.nz/invest/retail">https://www.nikkoam.co.nz/invest/retail</a> .				

### Compliance

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

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