

Factsheet 30 September 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)

- Developed market (DM) central banks delivered or hinted at forthcoming policy normalization in September.
- The US Federal Reserve (Fed) provided notice that asset purchase tapering “may soon be warranted” and the Bank of England (BoE) indicated rate hikes could precede the end of quantitative easing (QE). Meanwhile, the Norges bank became the first G10 central bank to raise its policy rate.

## Fund Highlights

- The portfolio outperformed its benchmark over the quarter, driven by our Cross sector (+22bps), Country (+11bps) and Duration (+8bps) strategies. Stock selection within emerging markets also added value (+6). The main detractor from performance was stock selection within the Government/swaps sector.

## Performance

	One month	Three months	One year	Three years (p.a.)	Five years (p.a.)	Ten years (p.a.)
Wholesale <sup>1</sup>	-0.94%	0.39%	0.28%	6.13%	4.25%	5.79%
Benchmark <sup>2</sup>	-0.96%	0.09%	-0.59%	4.32%	3.00%	5.03%
Retail <sup>3</sup>	-1.14%	0.37%	-0.50%	5.23%	3.30%	

<sup>1</sup>. Returns are before tax and before the deduction of fees. Based on actual calendar periods.

<sup>2</sup>. Benchmark: Bloomberg Barclays Global Aggregate Index, hedged into NZD. No tax or fees.

<sup>3</sup>. 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.

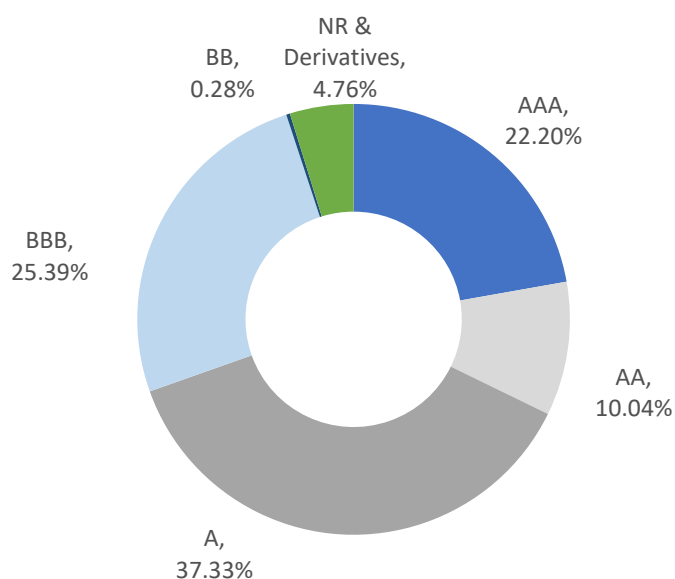
## Overview

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	36.37	46.19
Agency	2.14	8.24
Collateralised & MBS	25.74	11.51
Credit	28.32	20.22
Emerging market debt	12.46	13.82
Cash, derivatives, other*	-5.03	0.02

\*includes deferred settlements

Duration
Fund 7.95 years vs Benchmark 7.32 years

Yield to Maturity
Fund (gross) 2.25% vs Benchmark 1.45%

### Market Commentary (source: GSAM)

Developed market (DM) central banks delivered or hinted at forthcoming policy normalization in September. The US Federal Reserve (Fed) provided notice that asset purchase tapering “may soon be warranted” and the Bank of England (BoE) indicated rate hikes could precede the end of quantitative easing (QE). Meanwhile, the Norges bank became the first G10 central bank to raise its policy rate. Notable exceptions to the G10 policy normalization story are the European Central Bank (ECB) and Bank of Japan (BoJ), with easy policies set to persist for the foreseeable future. Inflation continues to move higher in both developed and emerging economies, driven by reopening effects and technical factors. A sharp rise in energy prices and supply bottlenecks present near term upside risks. In addition, we see emergent signs of upward inflation pressures in the form of firmer wage growth and higher inflation expectations. Overall, we expect inflation will gravitate to a higher level relative to the last cycle but not significantly above central bank targets. We remain moderately positioned in global interest rates given the potential for central bank responses to upside inflation pressures. We are modestly overweight the US dollar and see value in commodity-oriented currencies. Across fixed income spread sectors, we are overweight corporate credit, with a preference for high yield over investment grade. We are also overweight securitized credit.

### Fund Commentary (source: GSAM)

The portfolio outperformed its benchmark over the month and quarter. Over the quarter outperformance was driven by our Cross sector (+22bps), Country (+11bps) and Duration (+8bps) strategies. Stock selection within emerging markets also added value (+6). The main detractor from performance was stock selection within the Government/swaps sector.

Our Cross Sector strategy contributed owing to our overweight sector positioning in investment grade corporates. IG corporate markets were tested over the September month amid volatility in risk assets, largely driven by corporates in China, energy markets reaching multi-year highs and a more hawkish tone from the Federal Reserve. However, IG credit markets proved resilient and added value over the quarter. EM credit posted positive returns in August as a dovish take on Fed Chair Powell’s speech at the Jackson Hole symposium supported risk assets (including EMD). Over September outperformance of our EMD Selection strategy was driven by our curve steepener in Brazilian local rates as well as our security selection in Chinese and Polish local rates. In Brazil, inflation pressures continued as the latest published inflation figures came out higher than expected. This, alongside political uncertainty benefitted our curve steepener position. Our Duration strategy was the main detractor over the month, but added value over July and August. Value was detracted over September by our tactical overweight positioning in US rates as US rates sold off over the month. Our overweight Canadian and Australian rates position also detracted as rates sold off more broadly across developed markets, driven by hawkish central banks amid rising inflation pressures and supply side issues.

### 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%	\$479.3m	October 2008
<b>Restrictions:</b> Thermal coal mining and extraction, oil tar sands extraction, ‘controversial weapons’, tobacco stocks and fossil fuels. 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 quarter.

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