

Factsheet 31 January 2022

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)

- The Federal Reserve (Fed) kept rates on hold at its January Federal Open Market Committee (FOMC) meeting but hinted at rate hikes from March and market-implied pricing adjusted to a potentially more hawkish policy path from the Fed.
- Outside of the US, the Bank of England (BoE) hiked rates by 25 bps to 0.5% the European Central Bank (ECB) opened the door for rate hikes in 2022. We expect the Fed to deliver five rate hikes in 2022 and commence balance sheet reduction in the third quarter.

Fund Highlights

- The portfolio outperformed its benchmark over the month of January, driven by our Country and Corporate Selection strategies, whilst our Cross Sector strategy was the largest detractor.
- Our Country strategy was the largest contributor, owing mainly to our cross-market overweight exposure in Australian rates and underweight exposure in US rates across various trades. US rates underperformed over the month following a hawkish Fed meeting and as the market continued to price in earlier US rate hikes.

Performance

	One month	Three months	One year	Three years (p.a.)	Five years (p.a.)	Ten years (p.a.)
Wholesale ¹	-1.55%	-0.76%	-2.63%	4.59%	4.29%	5.27%
Benchmark ²	-1.61%	-1.19%	-2.28%	2.93%	3.17%	4.60%
Retail ³	-1.60%	-1.09%	-3.54%	3.84%	3.38%	

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.

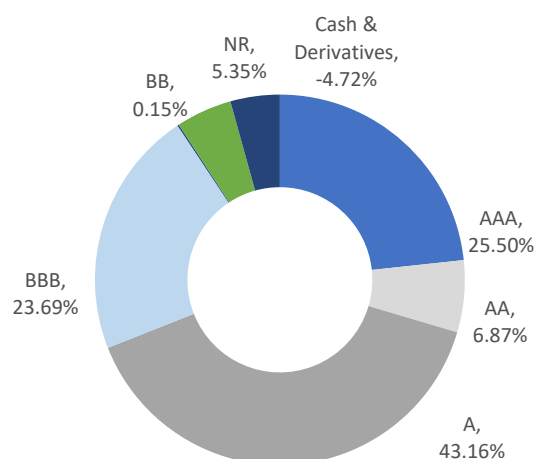
Overview

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	32.37%	46.05%
Agency	2.49%	8.09%
Collateralised & MBS	26.28%	11.71%
Credit	28.97%	19.84%
Emerging market debt	14.61%	14.30%
Cash, derivatives, other*	-4.72%	0.02%

*includes deferred settlements

Duration
Fund 7.23 years vs Benchmark 7.31 years

Yield to Maturity
Fund (gross) 3.15% vs Benchmark 2.24%

Market Commentary (source: GSAM)

Rate markets were driven by inflationary pressures, hawkish monetary policy developments and market-implied earlier-than-expected tightening for central banks. The Federal Reserve (Fed) kept rates on hold at its January Federal Open Market Committee (FOMC) meeting but hinted at rate hikes from March and market-implied pricing adjusted to a potentially more hawkish policy path from the Fed. Outside of the US, the Bank of England (BoE) hiked rates by 25 bps to 0.5% the European Central Bank (ECB) opened the door for rate hikes in 2022. We expect the Fed to deliver five rate hikes in 2022 and commence balance sheet reduction in the third quarter. We think hikes will be front-loaded in 2022 and see scope for market-implied pricing to turn more hawkish for 2023. In the UK, we expect a front-loaded rate hiking cycle, with further 25-bp rate hikes in March and May taking the policy rate to 1%. In addition to the rising rate environment, geopolitical risks from tensions between Russia and Ukraine added to market uncertainty. The Bloomberg Global Aggregate Corporate Index widened by 11 bps to 108 bps over sovereigns.

Fund Commentary (source: GSAM)

The portfolio outperformed its benchmark over the month of January (albeit returns were negative), driven by our Country and Corporate Selection strategies, whilst our Cross Sector strategy was the largest detractor. Our Country strategy was the largest contributor, owing mainly to our cross-market overweight exposure in Australian rates and underweight exposure in US rates. US rates underperformed over the month following a hawkish Fed meeting and as the market continued to price in earlier US rate hikes. Within our Corporate Selection strategy, excess returns came most notably from our overweight in short and intermediate maturity versus longer dated corporates curve positioning. Our bias to down-in-quality issuers also contributed.

Our Cross Sector strategy was the largest detractor over the month, driven by our sector overweight in investment grade (IG) corporates and our credit-rates barbell. Anticipation of faster than expected monetary policy withdrawal, hawkish central bank commentary and heightened geopolitical risks drove IG credit spreads wider over the month. Meanwhile, our credit-rate paired approach (where overweight exposure to spread sectors is hedged with a long US rates position) also detracted as US rates sold off amidst the market pricing in expectations for earlier Fed policy normalization.

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

0.00% / 0.00%

Strategy size

\$480m

Strategy Launch

October 2008

Restrictions: 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 <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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