Factsheet 30 September 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 third quarter closed on a volatile note as markets responded to a hawkish policy outlook, renewed geopolitical uncertainty, energy disruptions in Europe and pro-cyclical fiscal policy in the UK.
- Developed market central banks continue to contend with persistent inflation, currency weakness and fiscal policy complications, driving rates higher over the month.
- The US Federal Reserve (Fed) delivered its third 75bps rate hike, lifting the funds rate target range to 3%-3.25%, and revised economic projections in acknowledgement of slowing economic growth and rising unemployment. Meanwhile, the European Central Bank (ECB) and Bank of England (BoE) lifted rates by 75bps and 50bps, respectively. Federal Open Market Committee (FOMC) median dot plot projections suggest 125bps of additional rate rises by year-end.

Fund Highlights

- The fund performed in line with benchmark over the quarter. The main contributors were stock selection within the corporate sector (+13bps), country allocation (+5bps) and duration strategy (+2bps). The detractors were security selection within the securitized sector (-14bps) and cross sector allocation (-6bps).

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

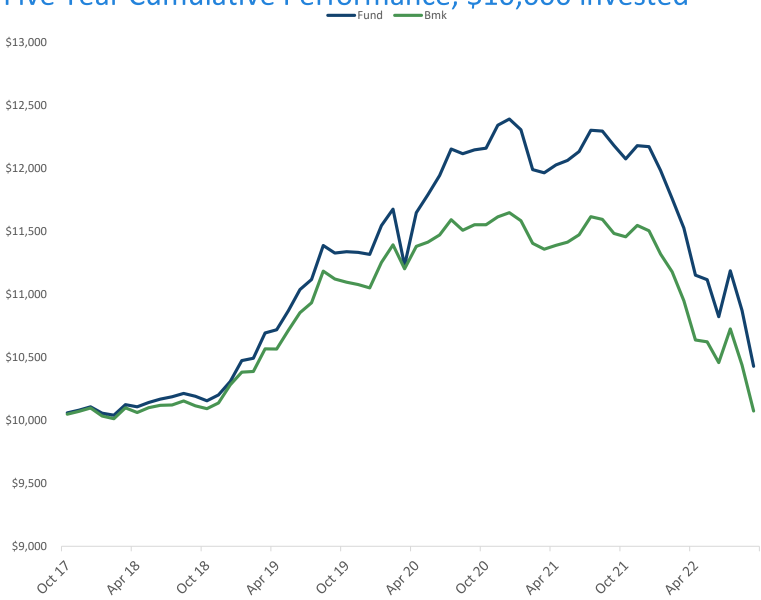
The Strategy aims to outperform the benchmark return by 1% per annum before fees, expenses and taxes over a rolling three-year period.

Performance

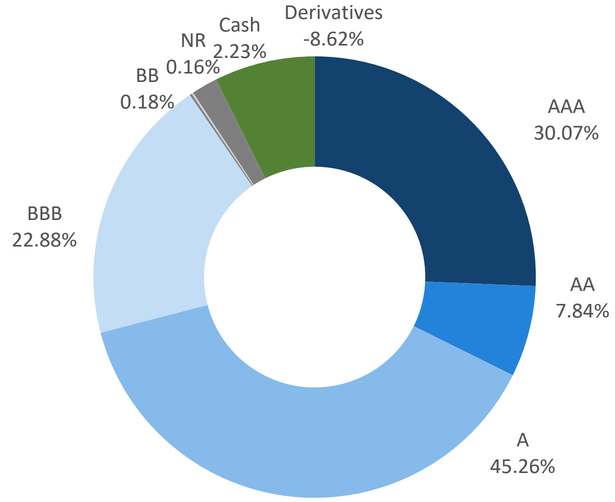
	One month	Three months	One year	Three years (p.a.)	Five years (p.a.)	Ten years (p.a.)
Wholesale[1]	-4.07%	-3.64%	-14.39%	-2.72%	0.84%	3.26%
Benchmark[2]	-3.50%	-3.68%	-12.28%	-3.25%	0.15%	2.83%
Retail[3]	-4.58%	-3.50%	-15.12%	-3.53%	-0.03%	

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	32.71%	44.93%
Agency	1.78%	7.82%
Collateralised & MBS	30.88%	12.67%
Credit	29.16%	19.51%
Emerging market debt	11.86%	15.01%
Cash, derivatives, other*	-6.38%	0.05%

*includes deferred settlements

Duration
Fund 5.71 years vs Benchmark 6.73 years

Yield to Maturity
Fund (gross) 6.58% vs Benchmark 4.96%

Market Commentary (source: GSAM)

The third quarter closed on a volatile note as markets responded to a hawkish policy outlook, renewed geopolitical uncertainty, energy disruptions in Europe and pro-cyclical fiscal policy in the UK. Looking ahead, the search for peak inflation, peak hawkishness and the peak in real yields is ongoing. Developed market (DM) central banks continue to contend with persistent inflation, currency weakness and fiscal policy complications, driving rates higher. To put this in perspective, DM central banks delivered over 500bps of rate hikes in September. The US Federal Reserve (Fed) delivered its third 75bps rate hike, lifting the funds rate target range to 3%-3.25%, and revised economic projections in acknowledgement of slowing economic growth and rising unemployment. Meanwhile, the European Central Bank (ECB) and Bank of England (BoE) lifted rates by 75bps and 50bps, respectively. Federal Open Market Committee (FOMC) median dot plot projections suggest 125bps of additional rate rises by year-end. We expect this to be delivered through a fourth 75bps rate increase in November, followed by a 50bps rate rise in December. Considering upside inflation risks from both fiscal measures and currency weakness, we expect the BoE to deliver a 100bps rate hike at its November and December meeting. Elsewhere, we expect another 75bps rate hike at the ECB's October meeting followed by 50bps hikes at December and February meetings. We initiated a marginal underweight position among Japanese rate as we think the Bank of Japan (BoJ), a notable dovish outlier, could retrench from ultra-easy policies such as yield curve control. We remain modestly overweight fixed income spread sectors including corporate and securitized credit but have an up-in-quality bias given growing downside growth risks. In addition, we are no longer balancing our spread sector exposures with interest rates given the backdrop of coordinated weakness in both interest rates and risk assets on hawkish central bank actions.

Fund Commentary (source: GSAM)

Portfolio returns were slightly above the benchmark over Q3 2022. Positive returns were attributed to our Corporate selection (+13bps), Country strategies (+5bps) and duration strategy (+2bps). Meanwhile, the detractors were security selection within the securitized sector (-14bps) and cross sector allocation (-6bps). Our Corporate selection returns were driven by our overweight position to shorter dated US investment grade (0-5 year maturity) corporate bonds. Notably, our position benefited in July following investor expectations of a US Federal Reserve (Fed) pivot, supporting risk assets. US investment grade (IG) spreads compressed by 28bps from the beginning of July to mid-August before retracing this outperformance for the remainder of the quarter. Shorter-dated (3-5 year maturity) US IG bonds compressed by 2bps over the quarter. Our Country strategy contributed to excess returns driven by our cross-market overweight position to Australian versus US rates. From a relative standpoint amongst global tightening peers, Australian rates were among outperformers. US rates underperformed relatively. A hawkish Fed and robust US data saw US rates climb further over the quarter. In addition, our overweight Swedish versus European rates position benefited. The Riksbank raised rates by smaller magnitudes relative to developed market peers over the quarter. That said, our position slightly detracted in September following a surprise 100bps Riksbank rate hike. The ECB similarly raised rates by an outsized magnitude, cumulatively raising rates by 125bps over two meetings, supporting our underweight position. Our Securitized selection strategy detracted from performance, driven by our selection of mortgage backed securities (MBS). Broadly, the MBS sector has faced numerous headwinds over the period: macroeconomic uncertainty and resultant spikes in interest rates volatility challenged spreads. Index spreads held up well versus corporate credit counterparts at the beginning of the review period, tightening from 37bps to 19bps on declining interest rate volatility. Robust performance was prompted by growing investor expectations for a dovish Fed pivot. Index spreads retraced this outperformance towards the end of the period, widening from 19bps to 64bps and to end the period at 48bps.

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%	$417m	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) on our website https://www.nikkoam.co.nz/invest/retail.

Compliance
The fund complied with its investment mandate and trust deed during the quarter.

Contact Us
www.nikkoam.co.nz | nzenquiries@nikkoam.com