Factsheet 31 October 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)

- Uncomfortably high inflation combined with tight labour markets kept developed market (DM) central banks on a steep tightening path over October.
- The Fed pointed to a slower pace of tightening but a higher peak, prompting benchmark US Treasury yields higher and the US yield curve to invert.
- Shoots of differentiation from coordinated developed markets tightening cycles began to emerge as central banks assess the impact of cumulative hikes.

Fund Highlights

- The fund outperformed its benchmark by 25bps. Government/swaps (+64bps) were the greatest contributor, followed by Cross sector allocation (+23bps). Securitised securities detracted value (60bps).

Performance

	One month	Three months	One year	Three years (p.a.)	Five years (p.a.)	Ten years (p.a.)
Wholesale[1]	-0.08%	-6.85%	-13.70%	-2.77%	0.71%	3.21%
Benchmark[2]	-0.33%	-6.39%	-12.37%	-3.28%	-0.02%	2.75%
Retail[3]	0.15%	-6.61%	-14.32%	-3.35%	-0.11%	

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.

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

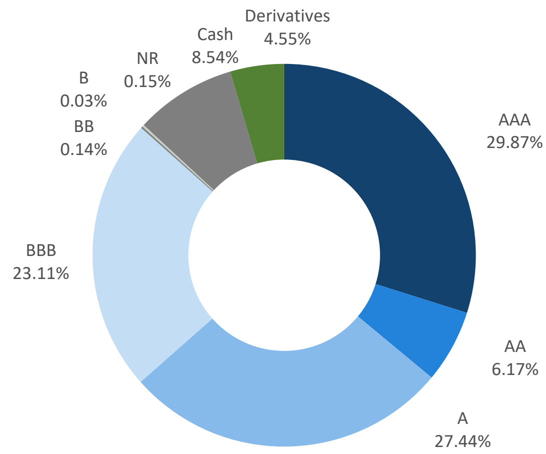
The Strategy aims to provide investors with regular income by constructing an actively managed investment portfolio of permitted investments, with the potential for capital gain from global fixed interest markets.

Objective

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

Five Year Cumulative Performance, $10,000 invested[1, 2]

Credit Quality



Sector Allocation (% of fund)	Fund	Index
Governments	18.80%	45.06%
Agency	3.23%	7.86%
Collateralised & MBS	28.90%	12.55%
Credit	31.14%	19.64%
Emerging market debt	4.83%	14.80%
Cash, derivatives, other*	13.10%	0.09%

*includes deferred settlements

Duration
Fund 6.24 years vs Benchmark 6.68 years

Yield to Maturity
Fund (gross) 6.41% vs Benchmark 4.92%

Market Commentary (source: GSAM)

Uncomfortably high inflation combined with tight labour markets kept developed market (DM) central banks on a steep tightening path over October. Suggestions of a policy pivot were short-lived as the European Central Bank (ECB), US Federal Reserve (Fed) and Bank of England (BoE) all delivered 75bps rate hikes. The Fed pointed to a slower pace of tightening but a higher peak, prompting benchmark US Treasury yields higher and the US yield curve to invert. Meanwhile, the BoE pushed back on the market's projection of a terminal rate beyond 5%, leaving policy sensitive front-end Gilt yields little changed. Shoots of differentiation from coordinated DM tightening cycles began to emerge as central banks assess the impact of cumulative hikes. For instance, estimates for the peak policy rate in this cycle have been on an uptrend since monetary tightening got underway, reflecting high uncertainty on inflation and broader economic developments. In addition, central banks in smaller economies such as Australia, Canada, and Norway shifted down to a slower pace of tightening. We think the Fed and ECB will downshift to 50bps rate hike increments from December given the large dose of tightening delivered year-to-date (YTD) and the lagged impact of that tightening on the economy. By contrast, we think another 75ps rate hike is likely in the UK, though the December meeting outcome will depend on the evolution of inflation data as well as the inflation implications of the November 17 Budget announcement.

October started on a volatile note for risk assets on continued UK asset volatility, renewed recession fears and news of still-elevated inflation. Risk asset performance fared better into the month supported by moderating rate volatility and as markets increasingly anticipated a slowdown in the pace of central bank tightening. Spreads on the Bloomberg US Aggregate Corporate Index were unchanged while US high yield spreads tightened by 88bps to end the month at 466bps.

Our asset allocation remains defensive with overweight exposure to the US dollar and bias to higher quality and less growth-sensitive sectors such as investment grade corporate credit and agency mortgage-backed securities (MBS). Over October, we modestly increased our exposure to IG corporate credit given corporate fundamentals remain healthy as reflected by strong balance sheet positions and still decent earnings. The combination of a slower new issuance calendar and demand from yield-oriented investors is also creating a positive technical backdrop.

Fund Commentary (source: GSAM)

The portfolio outperformed the benchmark by 25bps over October. This was driven by our Cross Sector and Emerging market debt (EMD) selection strategies. Meanwhile, our Corporate selection and Duration strategies detracted from excess returns. Outperformance of our Cross Sector strategy was driven by our overweight bias to corporate credit (both investment grade and high yield). US high yeild spreads tightened by 88bps to end the month at 466bps; supported by better-than-expected earnings and prospects of a slowdown in the pace of Fed tightening. Meanwhile, our investment grade position benefited as credit derivatives outperformed cash bonds on eased market volatility and supportive technical factors. Our EMD selection strategy also outperformed over the month. In particular, our underweight to Chinese credit. Chinese assets sold-off amid Communist Party Congress developments as China's leadership reiterated growth concerns and limited leeway around zero Covid policy. In response, spreads on 5-year China CDS rose to their highest level since June 2016 outside of the pandemic. Our Corporate selection strategy underperformed. This was driven by our overweight bias to shorter-maturity US investment grade corporate bonds, 1-3 year and 3-5 year spreads widened by 15bps and 12bps, respectively. In addition, from a sector perspective, our overweight sector allocation to investment grade REITS and Banking detracted, spreads widening by 24bps and 13bps, respectively. Underperformance of our Duration strategy was driven by our tactical auction strategy in US treasuries. Heightened market volatility and market demand/supply dynamics into month-end, challenged our position.

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%	$420m	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.

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