nikko am
Nikko Asset Management

Factsheet 28 February 2023

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)

- In January, market volatility moderated amid a 'Goldilocks' backdrop of easing inflation and steady growth, and in anticipation of a slower pace of monetary tightening. That set up was interrupted in February by strength in growth and labour market data which generated higher rate volatility as markets anticipated a bumpier path to disinflation and higher-for-longer rate environment.

Fund Highlights

- The portfolio had a negative return of 1.95%, underperforming the benchmark by 24 basis points.
- This was driven by our Securitized selection and Cross Sector strategies, respectively. Government/Swaps strategy contributed positively to excess returns.

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. The Goldman Sachs Asset Management Global Fixed Income Team managed over US$690 billion of global fixed income and currency assets (as at 30th September 2022).

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

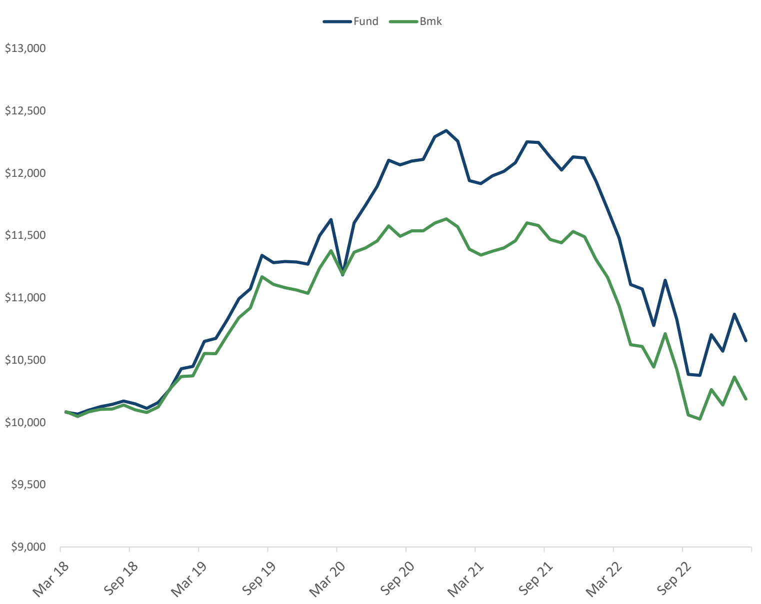
The Strategy aims to outperform the benchmark return by 1% per annum before fees, expenses and taxes over a rolling three-year period.

Performance

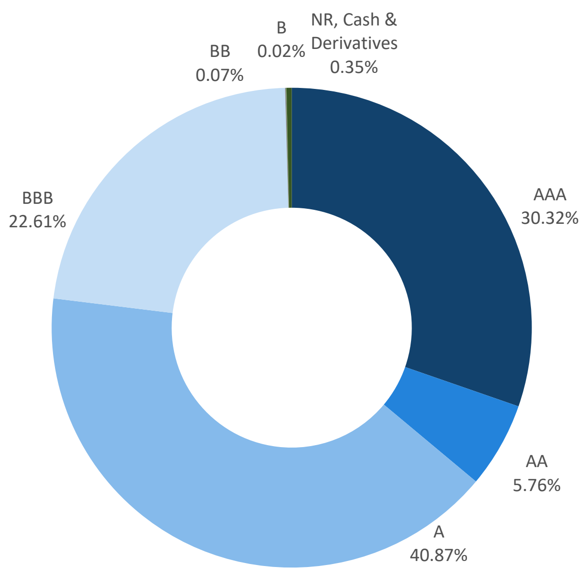
	One month	Three months	One year	Three years (p.a.)	Five years (p.a.)	Ten years (p.a.)
Wholesale[1]	-1.95%	-0.45%	-9.01%	-2.87%	1.28%	3.31%
Benchmark[2]	-1.71%	-0.74%	-8.75%	-3.62%	0.37%	2.76%
Retail[3]	-1.74%	-0.14%	-9.34%	-3.47%	0.46%	

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	38.00%	44.72%
Agency	1.58%	7.77%
Collateralised & MBS	28.25%	12.23%
Credit	27.99%	19.99%
Emerging market debt	3.97%	15.19%
Cash, derivatives, other*	0.21%	0.00%

*includes deferred settlements

Duration
Fund 6.07 years vs Benchmark 6.75 years

Yield to Maturity
Fund (gross) 5.94% vs Benchmark 5.31%

Market Commentary (source: GSAM)

In January, market volatility moderated amid a ‘Goldilocks’ backdrop of easing inflation and steady growth, and in anticipation of a slower pace of monetary tightening. That set up was interrupted in February by strength in growth and labour market data which generated higher rate volatility as markets anticipated a bumpier path to disinflation and higher-for-longer rate environment. Developed market (DM) sovereign bonds sold off in February as concerns around the persistence of inflation led market participants to anticipate further tightening from central banks. Furthermore, markets repriced higher peaks and moderated expectations for policy easing into year-end. Short-dated 2-year US bond yields rose to a cycle high of 4.8% while 10-year yields rose to 3.9%. DM peers mirrored the moves; 2-year German Bund and UK Gilt yields rose to 3.1% and 4.1%, respectively. Elsewhere, minutes from the February Federal Open Market Committee (FOMC) meeting suggested taming inflation remains a priority, supporting the narrative that US Federal Reserve (Fed) policy rates may remain higher-for-longer. Despite participants voting in favour of a slowdown to 25bps for the February meeting, all voters expect further rate hikes to be appropriate. In addition, minutes from the February European Central Bank (ECB) meeting corroborated hawkish policy commentary, suggesting it is “much too early to declare victory” on taming inflation. We remain cautious given upside inflation risks from a tight labour market and economic resilience suggest the Fed may maintain a higher level of policy rates for longer. We expect 75bps of additional hikes with the distribution depending on economic data. Our outlook on the ECB is neutral versus market-implied pricing. Firmer inflation data, a tight labour market and resilient activity leads us to expect the ECB to hike by 50bps at both March and May meetings before stepping down to 25bps in June to reach a terminal rate of 3.75%, an increase from our prior forecast of 3.5%. Elsewhere, we think the Bank of England’s (BoE) March meeting is a close call but expect the central bank to go on an extended pause thereafter. Lastly, we anticipate the Bank of Japan’s (BoJ) yield curve control policy to be tweaked further or abandoned over the coming year. We also think there is a high likelihood of a rate rise and departure from negative interest rate policy. The bumpy path to US disinflation led markets to expect a higher peak in policy rates. Nonetheless, fixed income spread sectors have performed well year-to-date. We think the resilience reflects strong fundamentals and investor demand for high quality fixed income assets like investment grade credit. Our asset allocation remains prudent. We are overweight fixed income spread sectors to benefit from attractive carry and roll properties. However, we have reduced our overweight exposure as we are mindful that strong economic data may prolong rate volatility which tends to weigh on risk assets including corporate and securitized credit. Elsewhere, we used recent strength in agency mortgage-backed securities (MBS) as an opening to moderate our overweight exposure given key pillars of our investment view have turned less supportive.

Fund Commentary (source: GSAM)

The portfolio underperformed its benchmark over February. This was driven by our Securitized selection and Cross Sector strategies, respectively. Our Government/Swaps strategy contributed positively to excess returns. Underperformance of our Securitized selection strategy was driven by our selection among agency mortgage-backed securities (MBS) passthrough securities. This was largely driven by our overweight production versus discount coupon position. Our Cross Sector strategy also underperformed. This was driven by our overweight exposure to investment grade (IG) corporate credit paired with US rates. Global IG spreads widened while US bond yields rose sharply amid further news of economic resilience. Elsewhere, our Government/Swaps selection strategy contributed to excess returns. This was primarily driven by our European butterfly position whereby we are overweight the belly and underweight short- and longer-dated parts of the curve. Yields rose rapidly across the European yield curve, however, from a relative standpoint, our position was supported by our underweight to longer-dated European bonds and the belly of the European curve.

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%	$463.m	October 2008

Exclusions: Controversial weapons.

Restrictions: Thermal coal mining and extraction, oil tar sands extraction, 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 month.

Contact Us

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