Factsheet 31 May 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)

- Fixed income sectors weakened in May on concerns surrounding resolution of the US debt ceiling and amid banking sector stress.
- Developed market (DM) government bond yields trended higher over May, opening the month with 25bp rate hikes from central banks.
- In a post-pandemic era, we anticipate structural shifts such as decarbonization, deglobalization and geopolitical instability to create growth volatility and bearish sentiments.

Fund Highlights

- The portfolio outperformed its benchmark over May, albeit returns were negative. This was driven by our Emerging market debt (EMD) and Corporate selection strategies.
- Cross Sector strategy detracted from 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.

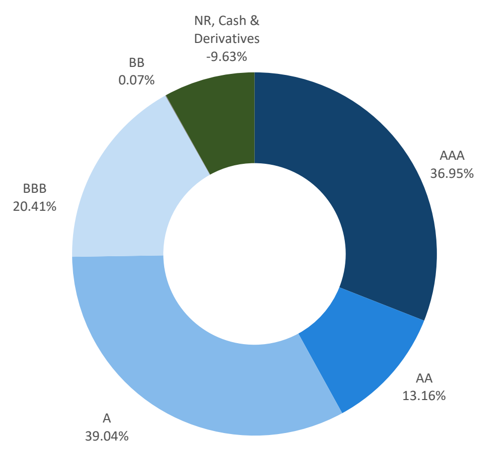
Performance

	One month	Three months	One year	Three years (p.a.)	Five years (p.a.)	Ten years (p.a.)
Wholesale[1]	-0.31%	2.59%	-1.25%	-2.36%	1.60%	3.48%
Benchmark[2]	-0.41%	2.29%	-1.77%	-2.95%	0.65%	2.93%
Retail[3]	-0.34%	1.78%	-3.04%	-3.22%	0.68%	

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	39.30	44.62
Agency	1.62	7.84
Collateralised & MBS	36.81	12.06
Credit	27.39	20.02
Emerging market debt	4.66	15.33
Cash, derivatives, other*	-9.78	0.13

*includes deferred settlements

Duration
Fund 5.97 years vs Benchmark 6.7 years

Yield to Maturity
Fund (gross) 5.94 % vs Benchmark 5.43%

Market Commentary (source: GSAM)

Fixed income sectors weakened in May on concerns surrounding resolution of the US debt ceiling and amid banking sector stress. Moreover, US-China tensions, speculation over US Federal Reserve (Fed) policy, corporate earnings, and a growing focus on the rise of artificial intelligence (AI) also drove market volatility.

Developed market (DM) government bond yields trended higher over May, opening the month with 25bp rate hikes from central banks in the US, Europe, and UK. Moreover, an upside surprise to UK CPI exacerbated the selloff in UK Gilts, returning yields to levels last seen during the 'mini budget' selloff in October 2022. The selloff in US Treasury bonds advanced amid hawkish Fed speak and US debt ceiling developments. Lastly, European bond yields deviated from the upward trend somewhat into month-end given weaker-than-expected data. We maintain our view of a pause in Fed rate hikes into 2024 though we acknowledge divided Federal Open Market Committee (FOMC) opinions, and that continued inflation strength may lead to one further rate hike before a pause takes effect. We expect the Bank of England (BoE) to deliver two further 25bps rate hikes in June and August for a terminal rate of 5% and expect a terminal rate of 3.75% for the European Central Bank (ECB) whilst remaining underweight Japanese rates.

In a post-pandemic era, we anticipate structural shifts such as decarbonization, deglobalization and geopolitical instability to create growth volatility and bearish sentiments. As episodes of growth volatility resurface, we expect cyclical assets to face heavier headwinds than core bonds. We believe an allocation to core fixed income can help balance portfolios through these episodes given higher yields have significantly strengthened the protective power and income benefits of high-quality bonds.

Fund Commentary (source: GSAM)

The fund outperformed its benchmark over May, although both fund and benchmark were negative. This was driven by our Emerging market debt (EMD) and Corporate selection strategies, respectively. By contrast, our Cross Sector strategy detracted from excess returns.

Performance of our Emerging Market Debt selection strategy was driven by our preference to hold local China exposure via interest rates swaps versus bonds, and with the former outperforming over the month.

Our Corporate selection strategy also contributed. This was driven by our sector overweight to the investment grade (IG) Banking sector. From a sector perspective, US banks were a notable outperformer over May with spreads tightening by 4bps over the month.

Elsewhere, our Cross Sector strategy detracted from excess returns. This was driven by our exposure to interest rates which we pair with spread sectors. A selloff in US Treasuries, perturbed by a hawkish Fed and concerns around the US debt ceiling, drove underperformance.

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
$484m

Strategy Launch
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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