

# Nikko AM Global Bond Strategy

Monthly Update 31 October 2023

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

- October was a weak month for developed market (DM) government bonds as yields rose to multi-year highs during the month.
- The 10-year US Treasury yield briefly breached 5% during the month for the first time since 2007, while the 30-year yield also continued its ascent.
- The initial rise in US Treasury yields was driven by better growth prospects and in turn lower expectations for Fed easing in 2024.

## Fund Highlights

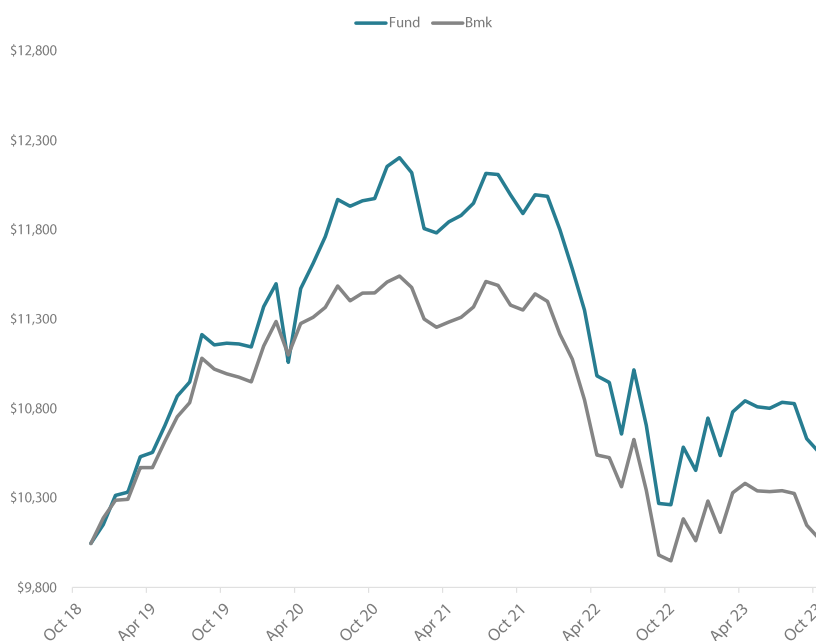
- The portfolio outperformed the benchmark in October. This was driven by our Duration and Country strategies while our Cross Sector strategy detracted from returns.
- Our Cross Sector strategy underperformed as a result of our overweight allocation to Mortgage-Backed Securities (MBS).

## Performance

	One month	Three months	One year	Three years (p.a.)	Five years (p.a.)	Ten years (p.a.)
<b>Wholesale<sup>1</sup></b>	-0.72%	-2.59%	2.86%	-4.12%	1.09%	3.09%
<b>Benchmark<sup>2</sup></b>	-0.75%	-2.60%	1.24%	-4.18%	0.14%	2.52%
<b>Retail<sup>3</sup></b>	-0.54%	-2.78%	1.82%	-4.91%	0.22%	

- Returns are before tax and before the deduction of fees. Based on actual calendar periods.
- Benchmark: Bloomberg Barclays Global Aggregate Index, hedged into NZD. No tax or fees.
- 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<sup>1,2</sup>



## 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).

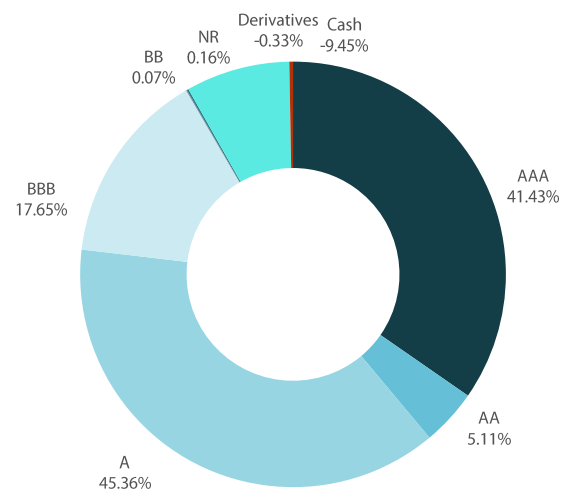
## Overview

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.

## Credit Quality



Sector Allocation (% of fund)	Fund	Index	Duration
Governments	37.38%	44.31%	Fund 6.11 years vs Benchmark 6.42 years
Agency	4.55%	7.83%	<b>Yield to Maturity</b>
Collateralised & MBS	38.52%	11.76%	Fund (gross) 5.51% vs Benchmark 5.82%
Credit	24.62%	20.28%	
Emerging market debt	4.71%	15.81%	
Cash, derivatives, other*	-9.78%	0.00%	

\*Includes deferred settlements

## Market Commentary

October was a weak month for developed market (DM) government bonds as yields rose to multi-year highs during the month. The 10-year US Treasury yield briefly breached 5% during the month for the first time since 2007, while the 30-year yield also continued its ascent. The initial rise in US Treasury yields was driven by better growth prospects and in turn lower expectations for Fed easing in 2024. The recent ascent has shifted to longer-dated bonds, reflecting a rise in term premium attributed to the fiscal outlook in the US and the impact of quantitative tightening.

The selloff in global bonds and rate volatility challenged risk assets during the month. Earnings growth moderated but still remain better-than-expected. A higher rate regime does not yet appear to be challenging fundamentals for Investment Grade (IG) companies with US IG spreads widening by 8bps over the month while US HY spreads widened by 41bps.

We maintain our overweight exposure to the US dollar. We continue to believe the dollar will benefit from ongoing US economic resilience and geopolitical volatility but note a dovish Fed and global soft-landing may temper its perceived safe-haven appeal.

Elsewhere, the ECB opted to keep policy rates on hold at 4% at the October meeting, in line with our expectations. We believe the ECB's hiking cycle has concluded and will maintain the current policy rate into 2024. That said, we are closely monitoring rising energy prices which could present upside risks to headline inflation. We think stagnating growth and easing core inflation should preclude further rate hikes.

Our investment stance is characterized by a degree of cautiousness. We maintain moderate exposure to fixed income spread sectors and remain up-in-quality. More broadly, we continue to locate opportunities in corporate bonds issued by companies that we believe are well positioned to withstand a higher-for-longer rate environment, while also navigating structural shifts.

## Fund Commentary

The portfolio outperformed the benchmark in October. This was driven by our Duration and Country strategies while our Cross Sector strategy detracted from returns.

The outperformance of our Duration strategy was driven by our underweight allocation to rates in Japan, where the central bank increased the flexibility of the yield curve control policy. Our tactical auction strategy in US rates also contributed to performance.

Our Country strategy contributed to excess returns primarily as a result of our cross-market underweight allocation to Australian rates versus overweight Swedish and Canadian rates. In Australia, rates sold off as higher-than-expected inflation and lower-than-expected unemployment raised the expected extent and pace of further monetary tightening. Our cross-market underweight exposure to Japanese rates also performed well.

Our Cross Sector strategy underperformed as a result of our overweight allocation to Mortgage-Backed Securities (MBS). MBS performed poorly over the month, driven by a continued selloff in the back-end of the curve, a rise in rate volatility, and REIT de-leveraging in the sector.

## Key Fund Facts

<b>Estimated annual fund charges (incl. GST)</b>	<b>Hedging:</b>	All investments will be hedged to New Zealand dollars within an operational range of 98.5% - 101.5%.	<b>Strategy Launch:</b>	October 2008
<b>Wholesale:</b> Negotiated outside of the unit price. <b>Retail:</b> 0.80%, refer to PDS for more details.	<b>Exclusions:</b>	Controversial weapons.	<b>Strategy size:</b>	\$514.7m
<b>Distributions:</b>	<b>Restrictions:</b>	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 <a href="https://www.nikkoam.co.nz/invest/retail">https://www.nikkoam.co.nz/invest/retail</a> .	<b>Buy / Sell spread:</b>	0.00%/0.00%
<b>Wholesale:</b> Calendar quarter <b>Retail:</b> Calendar quarter				

## Compliance

The wholesale fund complied with its investment mandate and trust deed during the month.

## Contact Us

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