

Nikko AM Global Bond Strategy

Monthly Update 30 April 2024

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

- Resilience in the economy, corporate earnings, and labour markets has coincided with upside surprises in US inflation.
- The European Central Bank (ECB) solidified anticipations for a rate reduction this summer. Similarly, disinflationary advancements in Sweden and Canada suggest potential monetary easing this year, given the current restrictive policy stance.
- Despite initial spread widening due to the US CPI inflation surprise, fixed income sector spreads generally reverted to their historically tight levels by the end of April.

Fund Highlights

- The portfolio underperformed its benchmark over the month.
- Underperformance was driven by our cross-sector and emerging market debt (EMD) selection strategies. By contrast, our securitized selection strategy contributed to excess returns.

Performance

	One month	Three months	One year	Three years (p.a.)	Five years (p.a.)	Ten years (p.a.)
Wholesale¹	-1.88%	-1.64%	2.69%	-2.04%	1.08%	3.21%
Benchmark²	-1.64%	-1.44%	1.58%	-2.23%	0.15%	2.65%
Retail³	-1.60%	-1.00%	2.81%	-2.65%	0.34%	2.34%

1. Returns are before tax and before the deduction of fees and including tax credits (if any). 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}



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).

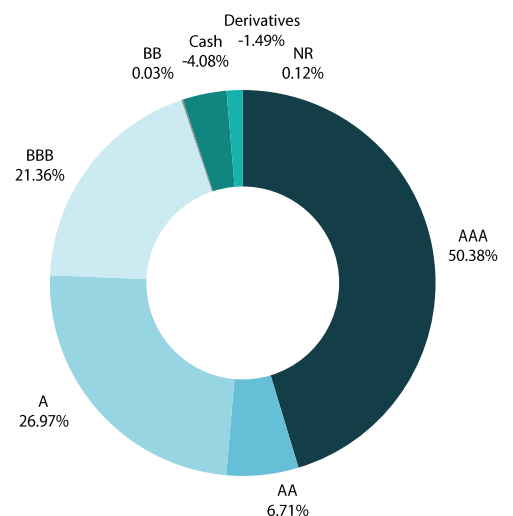
Overview

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	16.86%	44.15%	Fund 5.67 years vs Benchmark 6.53 years
Agency	4.67%	7.96%	Yield to Maturity
Collateralised & MBS	50.22%	11.45%	
Credit	29.18%	20.50%	
Emerging market debt	4.64%	15.94%	
Cash, derivatives, other	-5.57%	0.00%	

*Includes deferred settlements

Market Commentary

Resilience in the economy, corporate earnings, and labour markets has coincided with upside surprises in US inflation. This combination has raised the bar for US Federal Reserve (Fed) easing, boosting the prospect of a prolonged period of elevated policy rates. Consequently, April witnessed a weakening of sovereign bonds and a bolstered US dollar, marking its fourth month of gains. Elsewhere, the inflationary landscape seems less ambiguous beyond US borders. The European Central Bank (ECB) solidified anticipations for a rate reduction this summer. Similarly, disinflationary advancements in Sweden and Canada suggest potential monetary easing this year, given the current restrictive policy stance. These contrasting disinflation and policy trajectories present opportunities for cross-market rate strategies.

Despite initial spread widening due to the US CPI inflation surprise, fixed income sector spreads generally reverted to their historically tight levels by the end of April. A robust onset to the first-quarter earnings season could extend the durability of key credit metrics, enabling spread sectors to withstand a delayed easing cycle commencement.

Our outlook remains vigilant of risks such as persistent inflation and hawkish policy shifts. However, the Fed's May meeting has somewhat mitigated the likelihood of imminent rate increases. While a negative growth shock remains within the realm of possibility, we believe that inflationary progress coupled with the scope for monetary easing should see central banks respond accordingly.

Fund Commentary

The portfolio underperformed its benchmark over the month. This was driven by our cross-sector and emerging market debt (EMD) selection strategies. By contrast, our securitized selection strategy contributed to excess returns.

Detraction of our cross-sector strategy was driven by our sector exposure to agency mortgage-backed securities (MBS). We transitioned from neutral to overweight over the month considering a constructive demand environment and stable prepayment rates. Our position detracted amid heightened rate volatility. Following a reduction in our credit hedge with US rates over March, our position underperformed over April given the selloff in US rates on evidence of sticky inflation and continued strength in the US labour market.

Our EMD strategy also underperformed. This was driven by our local China exposure where we prefer to hold our position via interest rate swaps versus cash bonds. Lastly, our securitized selection strategy underperformed given our specific selection among non-agency MBS.

Key Fund Facts

Estimated annual fund charges (incl. GST)		Hedging:	All investments will be hedged to New Zealand dollars within an operational range of 98.5% - 101.5%.	Strategy Launch:	October 2008
Wholesale:	Negotiated outside of the unit price.	Exclusions:	Controversial weapons.	Strategy size:	\$546.5m
Retail:	0.80%, refer to PDS for more details.	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 .	Buy / Sell spread:	0.00%/0.00%
Distributions:					
Wholesale:	Calendar quarter				
Retail:	Calendar quarter				

Compliance

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

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