

Nikko AM Global Bond Strategy

Monthly Update 30 June 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

- Encouragingly, inflation data in the second quarter indicates that disinflation is resuming its course in the US, UK, and Europe, with Japan being the exception, potentially facing a new inflationary wave due to currency depreciation.
- The strength of Australian inflation may lead the Reserve Bank of Australia (RBA) to consider resuming rate hikes, while Japan is expected to continue its path towards steady normalization.
- The unexpected announcement of a snap legislative election in France led to a significant widening in the spread between 10-year French and German government bond yields, marking the largest weekly increase since the European sovereign debt crisis in 2011.
- Solid growth, robust corporate credit fundamentals, and strong demand for historically high yields continue to bolster fixed income spread sectors.

Fund Highlights

- The fund posted a positive return for the month and quarter, outperforming its benchmark.
- Outperformance was driven by our Country and Corporate selection strategies, respectively. By contrast, our Duration strategy detracted from excess returns.

Performance

	One month	Three months	One year	Three years (p.a.)	Five years (p.a.)	Ten years (p.a.)
Wholesale¹	1.04%	0.31%	5.38%	-1.60%	0.93%	3.26%
Benchmark²	0.87%	0.08%	3.82%	-1.91%	-0.05%	2.64%
Retail³	1.39%	0.30%	4.91%	-2.25%	0.19%	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).

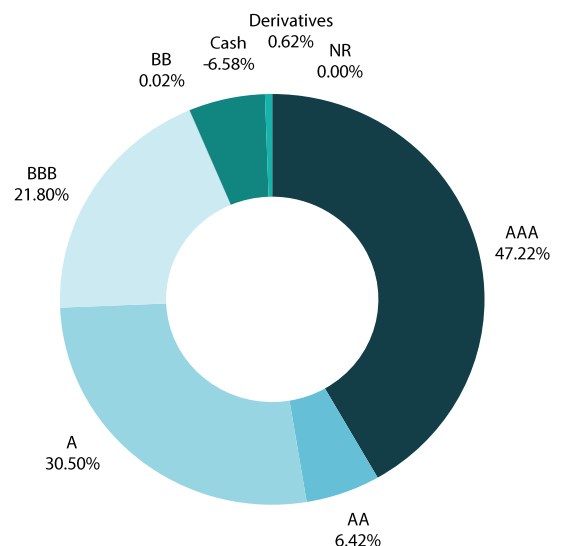
Overview

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	22.53%	43.95%	Fund 5.51 years vs Benchmark 6.52 years
Agency	4.65%	7.92%	Yield to Maturity
Collateralised & MBS	46.95%	11.53%	Fund (gross) 5.71% vs Benchmark 5.38%
Credit	27.82%	20.55%	
Emerging market debt	4.01%	16.04%	
Cash, derivatives, other	-5.96%	0.00%	

*Includes deferred settlements

Market Commentary

Encouragingly, inflation data in the second quarter indicates that disinflation is resuming its course in the US, UK, and Europe, with Japan being the exception, potentially facing a new inflationary wave due to currency depreciation.

Despite early in the year inflation setbacks, the opportunity set for cross-market interest rate perspectives has widened, reflecting divergence in monetary policy timelines and actions. Notably, Swedish, and Canadian interest rates have seen positive performance, aligning with our overweight position in these markets as their central banks embarked on rate-cutting cycles. In contrast, strength of Australian inflation may lead the Reserve Bank of Australia (RBA) to consider resuming rate hikes, while Japan is expected to continue its path towards steady normalization. Consequently, our stance is to be underweight in these markets.

Solid growth, robust corporate credit fundamentals, and strong demand for historically high yields continue to bolster fixed income spread sectors. Diverging central bank policy paths will likely continue to support cross-market exposure in which we can find opportunities. For example, our Australian rates position outperformed given stalling disinflation progress. We also continue to favour corporate and securitized credit, including commercial mortgage-backed securities (CMBS) and collateralized loan obligations (CLO), given a supportive fundamental backdrop. Securitized credit outperformed other fixed income spread sectors in the first half of the year.

As the second quarter ended, the unexpected announcement of a snap legislative election in France led to a significant widening in the spread between 10-year French and German government bond yields, marking the largest weekly increase since the European sovereign debt crisis in 2011. The market's reaction mirrored concerns over France's fiscal trajectory and a concurrent flight-to-safety demand for German bunds. Following the election's first round, assets that weakened, such as French government bonds and corporate bonds issued by French banks, have shown signs of recovery. While financial markets were primarily focused on signals from economic data in the first half of the year, we think there is scope for political uncertainty to become top of mind heading into the second half of 2024, especially as we near the US elections in November.

Fund Commentary

The portfolio outperformed its benchmark over the month and quarter. This was driven by our Country and Corporate selection strategies, respectively. By contrast, our Duration strategy detracted from excess returns. Contributions from our Country strategy were driven by our cross-market overweight to short-end Sweden and Canadian versus Australian rates. Both the Riksbank and Bank of Canada (BoC) embarked on their cutting cycle over the quarter, contributing to our position. Meanwhile, strong economic data prompted the Reserve Bank of Australia (RBA) to consider resuming rate hikes. Our overweight New Zealand versus Japan rates position also contributed. This was primarily driven by our underweight to Japanese rates. The Bank of Japan (BoJ) grew less dovish over the quarter. Indeed, hawkish remarks from the central bank saw the 10-year Japanese government bond yield exceed 1% for the first time since 2012 in May. Meanwhile, contributions from our Corporate selection strategy were driven by our bias towards steepening of the investment grade (IG) corporate credit curve. This entails an overweight position on the short-to-medium maturity portion of the curve and underweight the long-end. Both components contributed to our steepener position. Our preference to be overweight BBB-rated IG credits also contributed to excess returns.

Our Duration strategy underperformed. This was primarily driven by our discretionary overweight to US rates. We held this position into the second quarter in anticipation of further disinflation and eventual US Federal Reserve (Fed) policy easing. We reduced this position over the quarter considering stronger-than-expected data and amid US rate volatility.

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: Retail:	Exclusions:	Controversial weapons.	Strategy size:	\$585.4m
Distributions:	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%
Wholesale: Retail:				
Calendar quarter Calendar quarter				

Compliance

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

Contact Us

www.nikkoam.co.nz | nzenquiries@nikkoam.com

This document is issued by Nikko Asset Management New Zealand Limited (Company No. 606057, FSP No. FSP22562), the investment manager of the Nikko AM NZ Investment Scheme, the Nikko AM NZ Wholesale Investment Scheme and the Nikko AM KiwiSaver Scheme. This information is for the use of researchers, financial advisers and wholesale clients. This material has been prepared without taking into account a potential investor's objectives, financial situation or needs and is not intended to constitute financial advice, and must not be relied on as such. Recipients of this document, who are not wholesale investors (in accordance with Schedule 1, Clause 3 Financial Markets Conduct Act 2013), or their duly appointed agent, should consult a Financial Advice Provider and the relevant Product Disclosure Statement. Past performance is not a guarantee of future performance. While we believe the information contained in this presentation is correct at the date of presentation, no warranty of accuracy or reliability is given and no responsibility is accepted for errors or omissions including where provided by a third party. For full details on the fund, please refer to our Product Disclosure Statement on nikkoam.co.nz.