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Nikko Asset Management

YOUR GOALS, OUR COMMITMENT.

Nikko AM Global Bond Strategy

Monthly Update 31 August 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

- Risk-off sentiment in financial markets was attributed to a mix of factors, including doubts about the health of the US economy, induced by the July labour market report that showed fewer jobs added than expected, and a fourth consecutive monthly increase in unemployment.
- Diminishing excitement over AI advancements, geopolitical uncertainties, shifting US election odds suggesting less pro-growth policies, and the unwinding of Japanese yen carry trade strategies all played a role in market volatility.

Fund Highlights

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

Performance

	One month	Three months	One year	Three years (p.a.)	Five years (p.a.)	Ten years (p.a.)
Wholesale[1]	1.08%	4.44%	8.67%	-0.95%	0.97%	3.41%
Benchmark[2]	1.06%	3.95%	7.10%	-1.27%	-0.04%	2.74%
Retail[3]	1.46%	4.67%	8.15%	-1.71%	0.16%	2.51%

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.

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

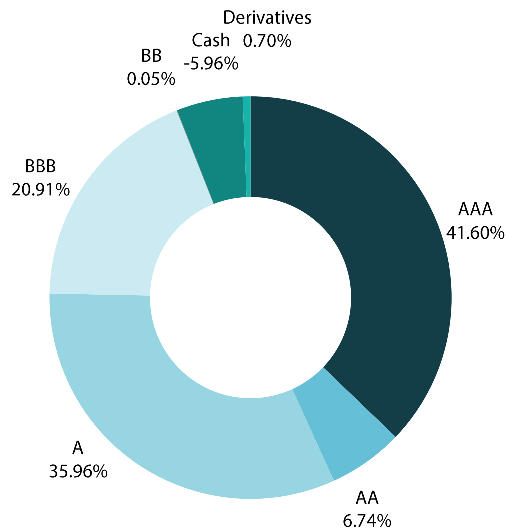
The Strategy aims to provide investors with regular income by constructing an actively managed investment portfolio of permitted investments, with the potential for capital gain from global fixed interest markets.

Objective

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

Five Year Cumulative Performance, $10,000 invested[1,2]

Credit Quality



Sector Allocation (% of fund)	Fund	Index
Governments	29.46%	44.54%
Agency	4.31%	7.86%
Collateralised & MBS	42.07%	11.30%
Credit	25.44%	20.29%
Emerging market debt	3.99%	16.01%
Cash, derivatives, other	-5.27%	0.00%

*Includes deferred settlements

Duration
Fund 5.61 years vs Benchmark 6.53 years

Yield to Maturity
Fund (gross) 5.09% vs Benchmark 4.84%

Market Commentary

August started on a volatile note. Risk-off sentiment in financial markets was attributed to a mix of factors, including doubts about the health of the US economy, induced by the July labour market report, that showed fewer jobs added than expected, and a fourth consecutive monthly increase in unemployment. Additionally, diminishing excitement over AI advancements, geopolitical uncertainties, shifting US election odds suggesting less pro-growth policies, and the unwinding of Japanese yen carry trade strategies all played a role in market volatility.

Market moves could be dissected into two phases. The initial risk-off overreaction where recession fears spurred expectations of aggressive US Federal Reserve (Fed) rate cuts, led to a government bond rally and a drop in the 10-year US Treasury yield to its lowest level in a year. Perceived safe-haven assets like the Japanese yen saw a 7% appreciation against the US dollar post the US jobs report, with strength partially driven by an unwind of carry trades whereby investors were underweighting the Japanese yen to fund exposure in higher carry assets. Fixed income sectors weakened, with spreads widening in both investment grade (IG) and high yield (HY) credit, while securitized credit spreads remained relatively stable. Economic data to follow saw a partial correction. A rebounding ISM services report and lower-than-expected jobless claims, eased recession concerns with the 10-year Treasury yield returning to its pre-jobs report level and spread sectors recovered prior weakness.

Sound economic and credit fundamentals, coupled with a Fed that is committed to extending the economic expansion, allows investors to earn attractive income across fixed income sectors like corporate credit. However, growing downside growth risks relative to upside inflation risks highlights the value of balancing risk asset exposures, such as equities and fixed income spread sectors, with government bonds. Bonds have proven their stability during market volatility, and this balancing property is achievable due to higher starting yields and the return of the negative bond-equity correlation. More broadly, impending Fed rate cuts make today an opportune time to lock in attractive yields on high-quality bonds.

Fund Commentary

The portfolio was just ahead of its benchmark over August. This was driven by our Corporate selection and Duration strategies, while our Country strategy detracted from excess returns.

Contributions from our Corporate selection strategy were driven by our preference to express our investment grade (IG) credit exposure via credit derivatives. Cash bonds underperformed, more likely than not in anticipation of new issuance, while IG CDX spreads tightened over the month.

Elsewhere, our Duration strategy contributed to excess returns. This was driven by our US forward steepener position. Front-end US rates outperformed, yields falling by around 40bps as markets anticipated a September US Federal Reserve (Fed) rate cut, further emphasised by dovish central bank Chair, Jay Powell, at the Jackson Hole conference. Our overweight to UK rates also contributed, supported by the Bank of England's 25bps rate cut.

Lastly, our Country position detracted. This was driven by our overweight to Canadian versus Japanese rates position. Following a rise in Japanese bond yields at the beginning of the month (in conjunction with the central bank's rate hike), 5-year bonds outperformed alongside global sovereign bonds supported by encouraging US data and technical dynamics (demand increased from domestic investors following the unwinding of the carry trade at the beginning of August).

Key Fund Facts

Estimated annual fund charges (incl. GST)	
Wholesale: **Retail:**	Negotiated outside of the unit price. 0.80%, refer to PDS for more details.
Distributions:	
Wholesale: **Retail:**	Calendar quarter Calendar quarter

Hedging:	All investments will be hedged to New Zealand dollars within an operational range of 98.5% - 101.5%.
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.

Strategy Launch:	October 2008
Strategy size:	$652.6m
Buy / Sell spread:	0.00%/0.00%

Compliance

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

Contact Us

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