Nikko AM Global Bond Strategy

Monthly Update 30 November 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

- November began with a continuation of October's trends with US rates rising and the US dollar strengthening (+1.7%) as market participants began to price in a Trump White House and the potential for additional tariffs, a renewal of the Tax Cuts and Jobs Act, and deregulation leading to higher growth and inflation.
- Flash PMIs came in beneath expectations across Europe, further indicating weaker activity in the region and tariff concerns, causing Bunds to rally.
- Emerging markets (EM) returned -0.6% in November, mainly driven by unfavourable currency movements as a result of potential upcoming US trade policies.

Fund Highlights

- The portfolio outperformed its benchmark over November 2024, driven by our Cross Sector and Country strategies.
- No strategies detracted from performance over the month.

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).

Performance

	One month	Three months	One year	Three years (p.a.)	Five years (p.a.)	Ten years (p.a.)
Wholesale[1]	1.61%	0.97%	8.60%	-0.32%	1.26%	3.38%
Benchmark[2]	1.17%	0.81%	7.18%	-0.87%	0.31%	2.59%
Retail[3]	1.05%	0.36%	7.09%	-1.11%	0.41%	2.44%

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.

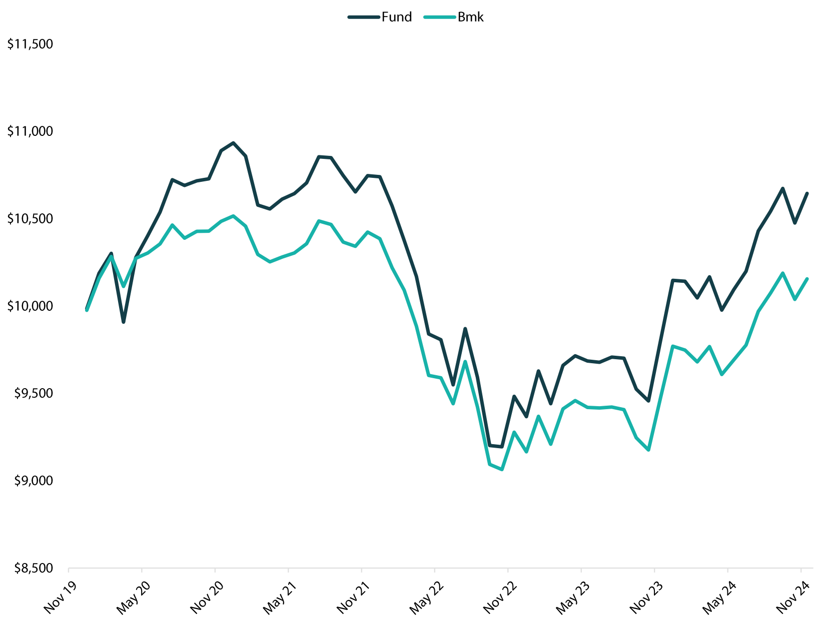
Overview

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.

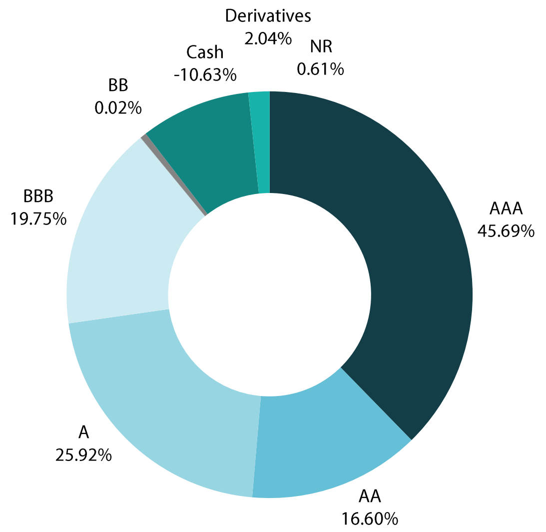
Objective

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	31.21%	44.46%
Agency	4.86%	7.74%
Collateralised & MBS	44.57%	11.32%
Credit	23.98%	20.36%
Emerging market debt	3.97%	16.12%
Cash, derivatives, other	-8.59%	0.00%

*Includes deferred settlements

Duration
Fund 6.44 years vs Benchmark 6.53 years

Yield to Maturity
Fund (gross) 4.82% vs Benchmark 4.36%

Market Commentary

November began with a continuation of October's trends with US rates rising and the US dollar strengthening (+1.7%) as market participants began to price in a Trump White House and the potential for additional tariffs, a renewal of the Tax Cuts and Jobs Act, and deregulation leading to higher growth and inflation. However, the rates selloff reversed towards the midpoint of the month with the 10-year US Treasury yield peaking at 4.46% after an in-line CPI report and the appointment of Scott Bessent as the treasury secretary caused rates to rally across the US curve. Elsewhere, flash PMIs came in beneath expectations across Europe, further indicating weaker activity in the region and tariff concerns, causing Bunds to rally.

The US Federal Reserve (Fed) cut rates by 0.25% during its November meeting despite a series of robust economic data and subsequent hawkish commentary, as the policy rate is still way above neutral though the future path is pre-determined. The Bank of England (BoE) continued to cut rates by 25bps in November on the back of softer-than-expected GDP growth and falling PMIs. In Europe, the outcome of the US election did nothing to quell existing growth concerns in the euro area, contributing to a downwards adjustment to ECB terminal rate expectations. Meanwhile, in Japan, hawkish comments from Bank of Japan (BoJ) Governor Ueda and a higher-than-expected Tokyo inflation report led Japanese bonds to underperform.

Emerging markets (EM) returned -0.6% in November, mainly driven by unfavourable currency movements as a result of potential upcoming US trade policies.

We are focused on three key investment opportunities: accessing income potential, adopting a dynamic approach, and adapting to divergent easing cycles. Healthy economic and credit fundamentals continue to offer opportunities for earning income across fixed income sectors, including corporate and securitized credit. High valuations are not a barrier to further gains if these fundamentals remain strong, as demonstrated in 2024, but active security selection is essential. Furthermore, with a new US policy agenda widening the range of potential outcomes, it is crucial to maintain diversified exposures and adopt a dynamic approach to security and sector allocations to capture emerging opportunities and navigate tail risks. Lastly, we anticipate the Fed to proceed gradually in 2025, while the ECB delivers consecutive rate cuts to below neutral, and the BoE eases more than priced due to a modest economic impact of the Autumn Budget. US growth outperformance is expected to continue, presenting upside potential for the US dollar, particularly amid policy uncertainty. In all cases, active management is essential to capture opportunities.

Fund Commentary

The portfolio outperformed its benchmark over November 2024, driven by our Cross Sector and Country strategies. No strategies detracted from performance over the month.

The outperformance of our Cross Sector strategy was driven by our overweight allocation to securitized fixed income, specifically commercial mortgage-backed securities (CMBS) and collateralized loan obligations (CLOs). Our overweight allocation to mortgage-backed securities also contributed as MBS spreads tightened over the month on strengthening technical factors, specifically strong demand from banks.

Outperformance of our Country strategy was driven by our cross-market underweight allocations to Japanese rates, particularly versus overweight Swedish rates. In November, Japanese rates underperformed following hawkish comments from BoJ Governor Ueda, as well as an upside surprise to Tokyo CPI. In contrast, Swedish rates outperformed as the Riksbank has begun its cutting cycle and continue to have a dovish assessment of their economy.

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:	$771.4m
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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