

Nikko AM Global Bond Strategy

Monthly Update 31 December 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

- December began with a continuation of post-election optimism as the US dollar strengthened (+2.6%) and rates on the long end of the US curve sold off following a strong November jobs report.
- Emerging market currencies generally weakened versus the dollar, led by the Korean won (-4.8%), which fell early in the month on the declaration of martial law and continued to weaken as the political turmoil unfolded.
- The BoE held rates at 4.75% as GDP contracted for a second consecutive month and inflation continued to rise and track marginally above the BoE forecast.

Fund Highlights

- The fund was slightly behind benchmark for the fourth quarter, but posted solid outperformance for the full year.
- The Government Swap Selection and Duration strategies detracted, while our Corporate Selection strategy performed well.

Performance

	One month	Three months	One year	Three years (p.a.)	Five years (p.a.)	Ten years (p.a.)
Wholesale¹	-1.06%	-1.33%	3.79%	-0.65%	1.07%	3.19%
Benchmark²	-0.88%	-1.20%	3.03%	-1.04%	0.18%	2.42%
Retail³	-0.85%	-1.65%	2.78%	-1.40%	0.28%	2.29%

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

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.

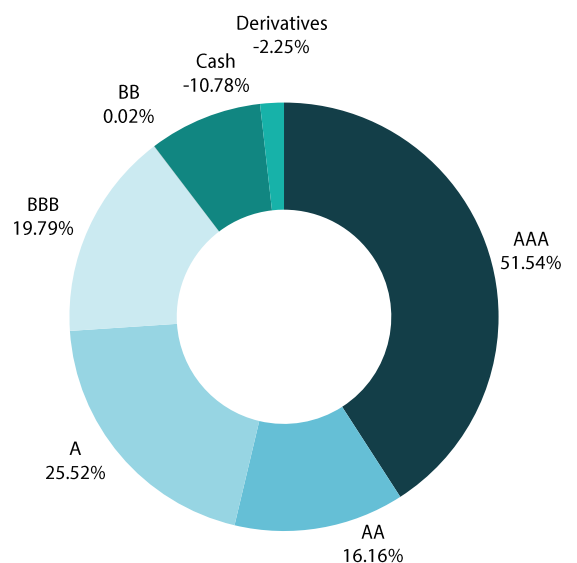
Objective

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	33.72%	44.28%
Agency	4.64%	7.62%
Collateralised & MBS	46.02%	11.43%
Credit	24.60%	20.30%
Emerging market debt	4.04%	16.37%
Cash, derivatives, other	-13.02%	0.00%

*Includes deferred settlements

Duration
Fund 6.07 years vs Benchmark 6.46 years
Yield to Maturity
Fund (gross) 4.96% vs Benchmark 4.53%

Market Commentary

December began with a continuation of post-election optimism as the US dollar strengthened (+2.6%) and rates on the long end of the US curve sold off following a strong November jobs report. The momentum in rates continued for the remainder of the month after the US Federal Reserve (Fed) provided a hawkish outlook for 2025. With the committee pencilling in only 50 bps of cuts in 2025, the market recalibrated its rate cut expectations causing the US 10-year Treasury yield to end the month 40 bps higher. Similarly, the 10-year bund sold off 28 bps over the month driven by hawkish ECB commentary. Elsewhere, emerging market currencies generally weakened versus the dollar, led by the Korean won (-4.8%), which fell early in the month on the declaration of martial law and continued to weaken as the political turmoil unfolded.

The Fed delivered a 25-bps cut at the December meeting with a notably hawkish outlook, which appeared to reflect the incorporation of potential policy changes under the Trump administration. The Fed delivered rate cuts totalling 50-bps for the quarter.

In December the BoE held rates at 4.75% as GDP contracted for a second consecutive month and inflation continued to rise and track marginally above the BoE forecast. BoE rate cuts totalled 25-bps for the quarter.

In Europe, the ECB cut rates by 25 bps in December. However, President Lagarde's comments were less dovish than the market anticipated, causing bunds to sell off. ECB rate cuts totalled 50-bps for the quarter.

Meanwhile, in Japan, the Bank of Japan (BoJ) kept rates unchanged this month but comments from Governor Ueda were dovish, as the BoJ is looking to gauge the impacts of wage negotiation and US trade policy before hiking further.

December was a mixed month for credit markets. Investment grade (IG) spreads were unchanged. Similarly, Agency MBS and securitized credit had mixed performance due to shifts in the monetary policy outlook that recalibrated prepayment expectations. Conversely, external emerging markets (EM) spreads tightened by -11 bps in December, mainly driven by strong economic and credit fundamentals and proactive domestic policies. EM returned -0.6% in November, mainly driven by unfavourable currency movements as a result of potential upcoming US trade policies. EM debt underperformance in October was mainly driven by a stronger US dollar.

Fund Commentary

The portfolio underperformed its benchmark in the fourth quarter of 2024. The Government Swap Selection and Duration strategies detracted, while the Corporate Selection strategy performed well.

The steeper position in European rates was the main driver of underperformance in the Government Swap Selection strategy. In October, European rates sold off, and the curve flattened. This was driven by upside surprises to GDP and inflationary data at the end of the month, which raised doubts surrounding the trajectory of ECB rate cuts.

The duration strategy also detracted from returns as a result of the portfolio being overweight to UK rates. UK rates sold off following the announcement of larger-than-expected gilt issuance for the current fiscal year, with the yield at the 2-year node – where the views were primarily expressed – increasing by over 40bps.

Corporate Selection strategy contributed to excess returns. This was driven by the portfolio's down-in-quality bias within IG corporates, as BBB-rated bonds outperformed their higher-quality counterparts over the quarter. There was also a contribution from the overweight allocation to the intermediate-maturity part of the corporate credit curve, which is implemented to harvest carry-and-roll.

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:	\$793m
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 quarter.

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