

Nikko AM Global Bond Strategy

Monthly Update 31 January 2025

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

- In the US, a strong December jobs report and tariff fears led the market to recalibrate growth, inflation, and monetary policy expectations for the coming year, which caused the 10-year US Treasury yield to rise to 4.79%.
- In the UK, gilts sold off to levels not seen in 30 years as domestic inflationary and fiscal concerns spooked the market to start the month.
- In Japan, the Bank of Japan (BoJ) raised its policy rate for the first time since July 2024 to 0.50% on the back of stronger inflation and wage data.

Fund Highlights

- The fund posted a positive return and outperformed the benchmark.
- Outperformance was driven by our Country and Government Swaps strategy, while our Emerging Market Debt Selection strategy detracted.

Performance

	One month	Three months	One year	Three years (p.a.)	Five years (p.a.)	Ten years (p.a.)
Wholesale¹	0.79%	1.33%	4.66%	0.13%	0.83%	3.08%
Benchmark²	0.37%	0.66%	3.65%	-0.38%	-0.11%	2.22%
Retail³	0.64%	0.83%	4.33%	-0.66%	0.07%	2.19%

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.

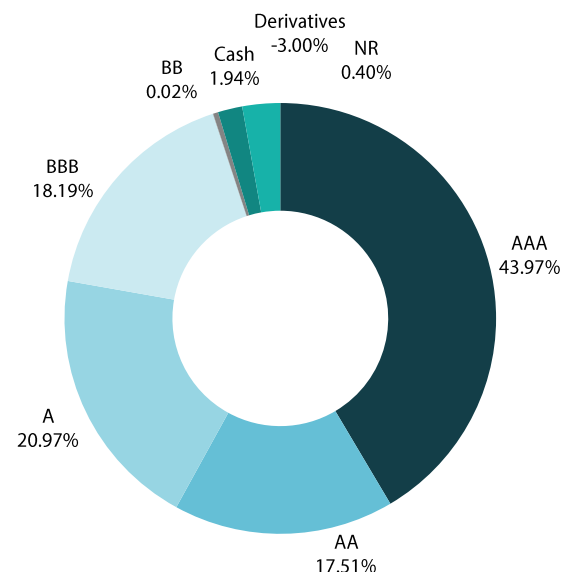
Objective

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	30.71%	44.22%
Agency	4.80%	7.76%
Collateralised & MBS	38.83%	11.32%
Credit	23.07%	20.22%
Emerging market debt	3.65%	16.48%
Cash, derivatives, other	-1.06%	0.00%

*Includes deferred settlements

Duration
Fund 5.80 years vs Benchmark 6.44 years
Yield to Maturity
Fund (gross) 4.58% vs Benchmark 4.41%

Market Commentary

January began the month with robust economic data causing bonds to sell off. In the US, a strong December jobs report and tariff fears led the market to recalibrate growth, inflation, and monetary policy expectations for the coming year, which caused the 10-year US Treasury yield to rise to 4.79% towards the midpoint of the month. However, fewer-than-expected day-one tariffs, and better-than-expected CPI sparked rates to rally into the end of the month. Similarly, in the UK, gilts sold off to levels not seen in 30 years as domestic inflationary and fiscal concerns spooked the market to start the month. However, gilts rallied after a soft UK CPI print and weak GDP print. Elsewhere, in Europe, signs of economic weakness continued as data showed stagnant growth in Q4 while trade fears lingered, causing bonds to rally.

The US Federal Reserve (Fed) held the Federal Funds target range between 4.25-4.50% during its January meeting. The move comes after 100bps of cuts in 2024 along with a resilient labour market, and policy uncertainty under the Trump administration. Despite these factors, the Fed kept the door open for additional easing in the event of soft economic data. Meanwhile, in Europe, the European Central Bank (ECB) cut rates by 25bps in January. The policy shift in combination with President Lagarde's dovish comments in response to potential tariff risks caused bonds to rally over the month. In Japan, the Bank of Japan (BoJ) raised its policy rate for the first time since July 2024 to 0.50% on the back of stronger inflation and wage data. The move caused Japanese Government Bonds to sell off over the month.

January was generally a positive month for spread sectors. Investment grade (IG) spreads tightened on a strong Q4 earnings season. Similarly, emerging markets (EM) spreads tightened in January, mainly driven by the Trump administration's less aggressive day-one tariffs. Meanwhile, Agency MBS and Securitized Credit had mixed performance due to shifts in the monetary policy outlook that recalibrated prepayment expectations.

Fixed income markets generally experienced positive returns over January. Within interest rates, the US curve bear steepened in the first half of the month, driven by back-end rates. This move was reversed in the second half, with the curve ending the month flat as long end rates (20-year and 30-year) have come off the 5% level reached mid-month. Meanwhile, option-adjusted spreads on most sectors tightened in a risk-on move.

Fund Commentary

The fund outperformed the benchmark over the month of January 2025. This was driven by our Country and Government Swaps strategy, while our Emerging Market Debt Selection strategy detracted. Our Country strategy contributed to returns, driven by our overweight Swedish rates versus underweight Japanese rates position. In January, Japanese rates sold off amongst stronger inflation and wage data, as well as a 25bps hike from the BoJ. In Sweden, the Riksbank cut rates and a flare-up in perceived tariff risks saw Swedish rates rally, benefitting our position.

Our Government Swaps strategy also outperformed, driven by our European steepener positions. Signs of economic weakness caused the ECB to cut rates by 25bps at the end of January. This, coupled with dovish language from ECB President Lagarde that signalled that rates are not yet near neutral as well as Trump's tariff threat, caused short-end bonds to rally, the curve steepening as a result.

The underperformance of our Emerging Market Debt Selection strategy was primarily a result of our positioning within Chinese local rates.

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:	\$822.9m
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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