

# Nikko AM Global Bond Strategy

Monthly Update 28 February 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

- February began with bond market weakness driven by tariff threats, followed by a relief rally after the postponement of those tariffs. In the US, Treasury yields initially fluctuated, experiencing a sell-off after higher-than-expected CPI data, before recovering on weak economic data and a fading narrative of US exceptionalism.
- In Europe, bond markets initially sold off on less aggressive tariff news and German political uncertainty but finished the month lower reflecting a global risk-off sentiment.
- Japanese bond yields sold off sharply on strong economic data.

## Fund Highlights

- The portfolio performed in line with the benchmark in February 2025.
- Country strategy detracted value whilst our Cross Sector strategy contributed positively to returns.

## Performance

	One month	Three months	One year	Three years (p.a.)	Five years (p.a.)	Ten years (p.a.)
<b>Wholesale<sup>1</sup></b>	1.14%	0.86%	6.86%	1.14%	0.83%	3.18%
<b>Benchmark<sup>2</sup></b>	1.18%	0.66%	5.61%	0.43%	-0.12%	2.37%
<b>Retail<sup>3</sup></b>	0.88%	0.66%	5.93%	0.40%	0.08%	2.26%

- 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.

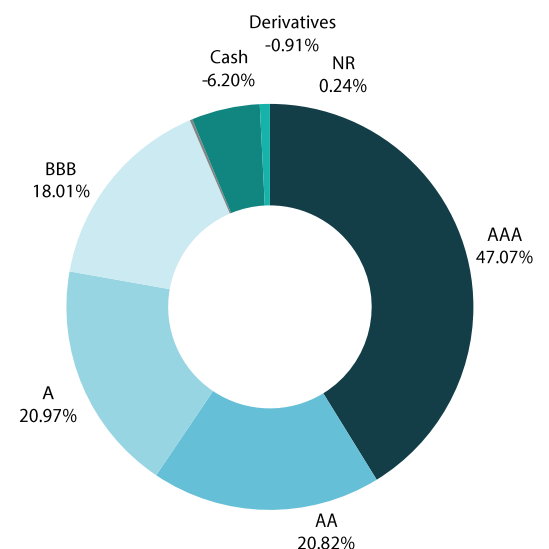
## Objective

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<sup>1,2</sup>



## Credit Quality



Sector Allocation (% of fund)	Fund	Index
Governments	32.15%	44.34%
Agency	4.72%	7.74%
Collateralised & MBS	43.60%	11.39%
Credit	22.95%	20.26%
Emerging market debt	3.70%	16.27%
Cash, derivatives, other	-7.13%	0.00%

\*Includes deferred settlements

Duration
Fund 6.19 years vs Benchmark 6.46 years
Yield to Maturity
Fund (gross) 4.27% vs Benchmark 3.98%

## Market Commentary

February began with bond market weakness driven by tariff threats, followed by a relief rally after the postponement of those tariffs. In the US, Treasury yields initially fluctuated, experiencing a sell-off after higher-than-expected CPI data, before recovering on weak economic data and a fading narrative of US exceptionalism. The 10-year Treasury yield ultimately rallied 34bps, and the yield curve steepened. In Europe, bond markets initially sold off on less aggressive tariff news and German political uncertainty but finished the month lower reflecting a global risk-off sentiment. UK gilt yields were volatile, rising initially after the 25bps BoE rate cut, before participating in the global rally. Japanese bond yields sold off sharply on strong economic data.

In the US, speculation about future rate cuts by the US Federal Reserve (Fed) were influenced by conflicting signals from inflation and growth data, as well as the on-and-off tariff announcements. The European Central Bank (ECB) faced pressure to ease monetary policy due to weakening economic data and relatively subdued inflation. The Bank of England (BoE) cut interest rates by 25 basis points in February, reflecting concerns about economic growth though persistent inflation supports the "careful and gradual approach" to remove restrictiveness. In Japan, the Bank of Japan (BoJ) maintained its hawkish stance, with expectations of further rate hikes fuelled by strong economic data, in contrast to other G10 central banks.

February was a mixed month for spread sectors. Investment-grade credit markets experienced volatility due to economic uncertainty from new tariffs, geopolitical factors, and weakening confidence. Spreads widened slightly in the US and Europe, with European corporates outperforming and strong demand led to significant new issuance in both regions. Agency MBS performed positively due to muted rate volatility and strong inflows, while securitized credit showed mixed results with widening spreads in some sectors reflecting uncertainty. Emerging market spreads widened on the back of strong issuance.

## Fund Commentary

The portfolio performed in line with the benchmark in February 2025.

Country strategy, was a detractor from performance while the Cross Sector strategy contributed positively to returns.

The underperformance of the Country strategy was driven primarily by an overweight allocation to Norwegian rates. Higher-than-expected January inflation in Norway, combined with strength in home prices and retail sales, led investors to rethink the Norges Bank's policy path for 2025.

The Cross Sector strategy contributed excess returns driven by the credit hedge, whereby sector exposures are balanced with an overweight allocation to US treasuries. Treasuries rallied over February, as weak economic data led investors to anticipate further interest rate cuts by the Fed, as growth concerns will likely be prioritized over inflation risks.

## Key Fund Facts

<b>Estimated annual fund charges (incl. GST)</b>		<b>Hedging:</b>	All investments will be hedged to New Zealand dollars within an operational range of 98.5% - 101.5%.	<b>Strategy Launch:</b>	October 2008
<b>Wholesale:</b>	Negotiated outside of the unit price. 0.80%, refer to PDS for more details.	<b>Exclusions:</b>	Controversial weapons.	<b>Strategy size:</b>	\$854.7m
<b>Retail:</b>		<b>Restrictions:</b>	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 <a href="https://www.nikkoam.co.nz/invest/retail">https://www.nikkoam.co.nz/invest/retail</a> .	<b>Buy / Sell spread:</b>	0.00%/0.00%
<b>Distributions:</b>					
<b>Wholesale:</b>	Calendar quarter				
<b>Retail:</b>	Calendar quarter				

## Compliance

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

## Contact Us

[www.nikkoam.co.nz](http://www.nikkoam.co.nz) | [nzenquiries@nikkoam.com](mailto:nzenquiries@nikkoam.com)

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