

Nikko AM Global Bond Strategy

Monthly Update 31 March 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

- Global bonds experienced volatility in March, but yields broadly finished the month higher.
- The US Dollar (-3.2%) underperformed following tariff announcements that exacerbated existing inflationary concerns and undermined the narrative of US exceptionalism.
- The Bank of England (BoE) kept rates on hold in March but adopted a slightly hawkish tone, highlighting growing concern about disinflation progress amid weaker demand.
- The European Central Bank (ECB) cut rates by 25bps in March but accompanied the move with a few hawkish adjustments, given the prevailing uncertainty.

Fund Highlights

- The portfolio was behind its benchmark for the month, but outperformed over the quarter.
- Our Country and Duration strategies contributed to performance, while our Cross Sector strategy detracted from performance over the quarter.

Performance

	One month	Three months	One year	Three years (p.a.)	Five years (p.a.)	Ten years (p.a.)
Wholesale¹	-0.65%	1.27%	4.90%	1.60%	1.48%	3.06%
Benchmark²	-0.46%	1.09%	4.18%	0.98%	0.13%	2.23%
Retail³	-0.48%	1.04%	4.10%	0.96%	0.62%	2.16%

- 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.

Five Year Cumulative Performance, \$10,000 invested^{1,2}



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).

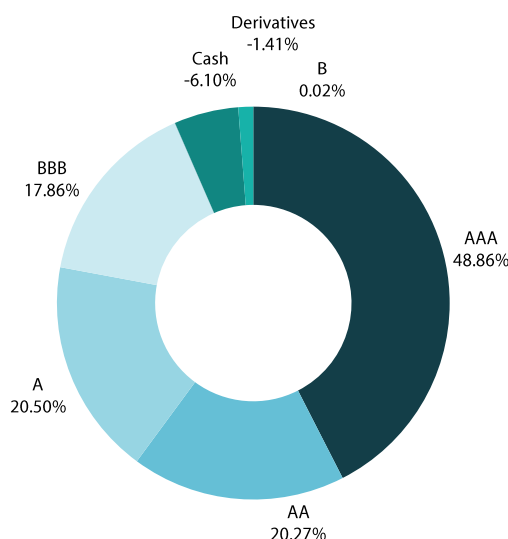
Overview

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.

Credit Quality



Sector Allocation (% of fund)	Fund	Index	Duration
Governments	34.66%	44.43%	Fund 5.88 years vs Benchmark 6.40 years
Agency	4.75%	7.80%	Yield to Maturity
Collateralised & MBS	42.63%	11.27%	Fund (gross) 4.25% vs Benchmark 3.92%
Credit	21.78%	20.27%	
Emerging market debt	3.68%	16.23%	
Cash, derivatives, other	-7.50%	0.00%	

*Includes deferred settlements

Market Commentary

Global bonds experienced volatility over the quarter with robust economic data, tariff threats leading the market to recalibrate growth, inflation, and monetary policy expectations for the coming year. The US Dollar underperformed (-3.2% in March) following tariff announcements that exacerbated existing inflationary concerns and undermined the narrative of US exceptionalism. While US CPI data was softer than expected, the University of Michigan survey and growing concerns about US growth triggered fears of stagflation and strong risk-off sentiment. Consequently, the 10-year US Treasury yield ended the month 1bp lower after rallying 34bps in February, while rising to 4.79% towards the midpoint of the January. Meanwhile, German Bunds began March with their largest weekly yield selloff (37bps) since reunification, driven by discussions around amending the constitutional debt brake to allow for increased defence and infrastructure spending; this amendment was passed at the end of the month. Similarly, Japanese Government Bonds (JGBs) continued to sell off (12bps) as Tokyo inflation printed higher than expected. Elsewhere, most currencies generally appreciated against the dollar over the month, led by Central and Eastern European currencies, while the Taiwanese dollar (-1.0%) and South Korean won (-0.7%) lagged amidst investor concern about the countries' vulnerability to reciprocal tariffs. The US Federal Reserve (Fed) held the federal funds target range between 4.25-4.50% during its January and March meetings. In a dovish March meeting, the Fed suggested tariff-related inflation may be 'transitory' and communicated a willingness to respond to growth risks if they emerge. The Bank of England (BoE) kept rates on hold in March but adopted a slightly hawkish tone, highlighting growing concern about disinflation progress amid weaker demand. 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 Europe, the European Central Bank (ECB) cut rates by 25bps in January and 25bps in March but accompanied the move with a few hawkish adjustments, given the prevailing uncertainty. In January, the Bank of Japan (BoJ) raised its policy rate for the first time in January since July 2024 to 0.50% on the back of stronger inflation and wage data. In March the Bank of Japan (BoJ) kept rates unchanged and maintained its hiking bias. March was a challenging month for credit markets. Investment grade (IG) spreads widened due to growth fears driven by trade policy shifts. Similarly, Agency MBS and securitized credit spreads widened due to an uptick in volatility and outflows from money managers. Emerging market (EM) spreads widened, following a similar pattern to other risk assets as the market anticipated the US announcement of reciprocal tariffs.

Fund Commentary

The portfolio outperformed the benchmark over the quarter. Our Country and Duration strategies contributed to performance, while our Cross Sector strategy detracted from performance. 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 Duration strategy also contributed to excess returns. This was driven by our overweight short-end European rates position, which outperformed as 2-year bonds rallied after the initial fiscal easing induced selloff in March, mirroring the broader risk-off tone in markets. The underperformance of our Cross Sector strategy was primarily driven by performance in March as a result of our overweight allocation to corporates and securitized assets, which underperformed as tariff uncertainty led the market to reconsider future growth expectations.

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:	\$847.5m
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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