NIKKO AM GLOBAL BOND FUND

Monthly Fact Sheet

Why Nikko Asset Management NZ?

As a dedicated global investment manager Nikko AM NZ pairs local knowledge and experience with significant global resources. The Nikko group manages over US$200 billion globally, including around NZ$5billion in New Zealand.

Fund overview

GSAM's investment philosophy and style is such that they aim to generate outperformance over time without being unduly exposed to one particular investment strategy or market circumstance. The portfolio is constructed in such a way that aims, over time, to react well to different economic conditions.

Benchmark

Bloomberg Barclays Global Aggregate Index, hedged into NZD

Performance objective

The aim is to outperform the benchmark by 1.00% per annum before fees, expenses and taxes over a rolling three year period.

Investment manager

Nikko AM NZ use 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. GSAM's Global Fixed Income Team manages over AU$450 billion of global fixed income assets.

Performance summary

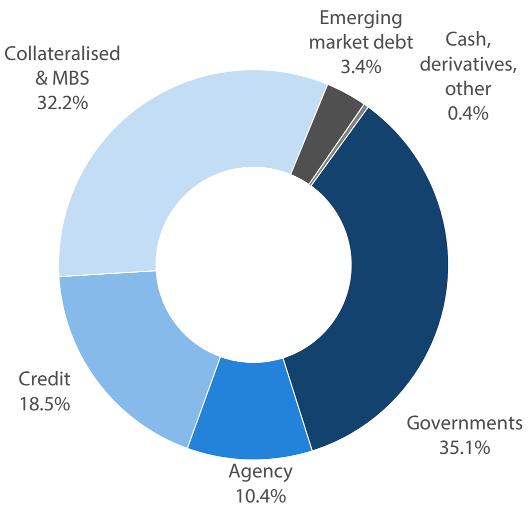
	Gross[1]	Benchmark	Net[2]
1 month	0.21%	0.22%	0.14%
3 months	0.47%	0.31%	0.22%
1 year	4.09%	4.15%	2.92%
2 years	4.90%	4.77%	3.78%
3 years (pa)	5.21%	4.97%	4.15%
5 years (pa)	5.71%	5.49%	
10 years (pa)	7.06%	7.06%	

1. Gross Returns are before taxes and before the deduction of fees.
2. Net Returns are before tax but after the deduction of fees and expenses.

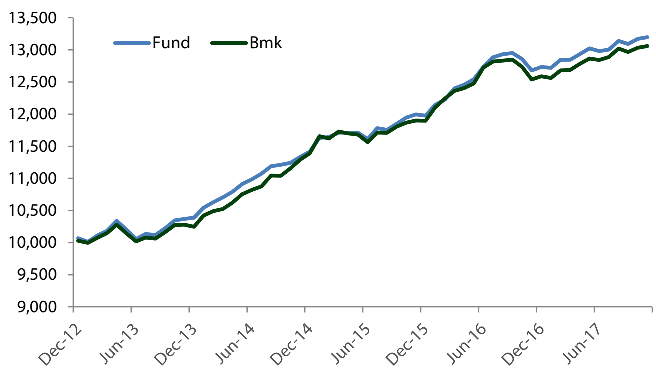
Risk indicator

Standard deviation of returns before tax and after fees over a rolling 5 years to the last calendar quarter

Asset allocation



Five year cumulative performance (gross) [1]



nikko am
Nikko Asset Management

Credit quality (% of fund)

AAA	42.28%
AA	10.75%
A	29.74%
BBB	17.03%
BB	0.20%

Duration and yield

Duration	Fund 6.14 years vs benchmark 6.84 years
Yield	Fund (gross) 2.95% vs benchmark 2.74%

Key fund facts

Strategy launch date
October 2008

Strategy FUM
$250.3m

Fund structure
PIE fund – wholesale and retail

Fees in retail fund:
Management fee 0.65%p.a
Expenses (maximum) 0.25%p.a
Expenses (current) 0.25%

Buy/sell spread
Nil

Distributions
Distributes calendar quarters

Benchmark
Bloomberg Barclays Global Aggregate Index, hedged into NZD

Hedging
All investments will be hedge to New Zealand dollars within an operational range of 98.5% - 101.5%.

Market commentary (source: GSAM)

The US Treasury curve flattened marginally in November, with front-end yields rising on raised expectations for a December rate hike, while long-end yields edged lower. The BoE reversed last year's post-Brexit emergency rate cut, marking the first rate rise in a decade and signalled future monetary policy tightening will be limited, gradual and dependent on the economic reaction to the UK's departure from the European Union. We are underweight US rates, modestly underweight Japanese rates and neutral European rates.

US economic data remains strong and we continue to expect a rate hike at the December Federal Open Market Committee (FOMC) meeting. We think Jerome Powell's nomination to succeed US Federal Reserve (Fed) Chair Janet Yellen points to continuity with regards to monetary policy, though we are conscious of other changes in Fed leadership in 2018 that may warrant a change in policy expectations.

Short term US rates have underperformed relative to other developed market government bonds, though we have reduced relative value positions where we are underweight US rates as we do not expect renewed or meaningful underperformance until financial conditions begin to tighten.

Agency mortgage-backed securities (MBS) outperformed duration-neutral Treasuries by 4bps in November, supported by strong economic data and low levels of volatility. We are underweight agency MBS as we expect spreads to widen in response to Fed tapering of agency MBS reinvestments and given potential for increased interest rate volatility amid further monetary policy normalization. Next year, around $250-300bn of net agency MBS supply is widely expected. At the same time, around $160bn of Fed balance sheet run off is expected. The combined impact will see the market faced with over $400bn in supply. This would mark the highest supply amount since 2008. We expect this technical headwind to pressure agency MBS spreads wider. We are also positive on collateralized loan obligations (CLOs), and residential mortgage credit, particularly legacy non-agency MBS, with the latter continuing to benefit from negative net supply and improving collateral performance. We are underweight collateral mortgage backed securities (CMBS), due to headwinds faced by secular challenges in the retail sector, and late stage cycle credit dynamics.

Investment grade corporate credit modestly weakened in November, with spreads on the Bloomberg Barclays Global Aggregate Corporates index widening by 2bps to 97bps over sovereigns. We are neutral to modestly overweight investment grade credit in dedicated credit portfolios, while neutral in multi-sector portfolios where we prefer securitized credit for yield. At this late stage of the cycle, we think security selection is an important source of excess return and so we are implementing meaningful positions in high conviction views at both an industry and single-name level. We are constructive on Healthcare as it benefits from a favourable commercial environment which has supported earnings. Elsewhere, we are neutral Energy, with an overweight position in Pipelines counterbalancing our underweight positions in Integrated and Refining services. We are also underweight Electrics due to the sectors tendency to underperform in a rising rate environment, and we are underweight Media given secular headwinds including higher costs, weakness in subscriptions and shifting consumer preferences.

Fund commentary

The fund slightly underperformed benchmark this month, 0.21% v 0.22%. Duration contributed the most to performance over the month (3bps). Within security selection, securitised and emerging market debt had the largest negative affect on performance (-2bps respectively).

Compliance

The Fund complied with its investment mandate, SIPO and Trust Deed during the month.

Contact us

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