

# 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 around US\$200 billion globally, including around NZ\$5 billion 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

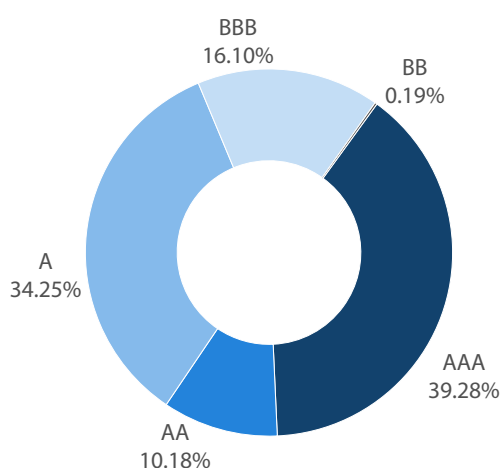
The aim is to outperform the benchmark by 1.00% per annum before fees, expenses and taxes over a rolling three year period.

### Risk indicator



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

### Credit quality



### 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

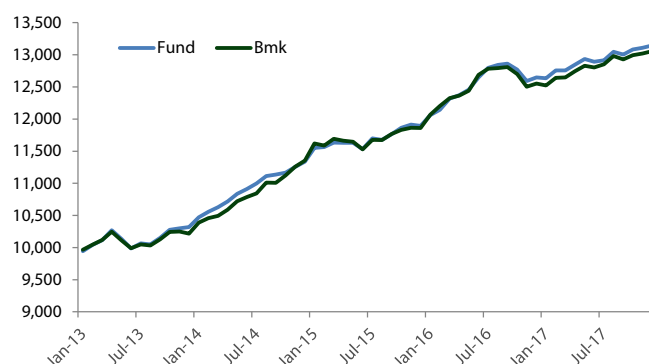
	Gross <sup>1</sup>	Benchmark	Net <sup>2</sup>
1 month	0.27%	0.27%	0.12%
3 months	1.08%	0.98%	0.82%
1 year	3.93%	4.02%	2.91%
2 years	5.12%	4.92%	4.03%
3 years (pa)	5.05%	4.76%	3.97%
5 years (pa)	5.62%	5.48%	
10 years (pa)	7.02%	7.03%	

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

### Sector Allocation

	Fund	Index
Governments	37.8%	50.9%
Agency	9.9%	9.0%
Credit	17.4%	21.6%
Collateralised & MBS	30.6%	12.3%
Emerging market debt	3.2%	6.2%
Cash, derivatives, other	1.1%	0.0%

### Five year cumulative performance (gross)<sup>1</sup>



## Duration and yield

Duration	Fund 6.70 years vs benchmark 6.84 years
Yield (in NZD)	Fund (gross) 2.93% vs benchmark 2.70%

## Market commentary (source: GSAM)

In the US, the Federal Open Market Committee (FOMC) raised the federal funds target range by 25bps to 1.25%-1.50%. Projections continue to show three rate hikes in 2018 and just over two in 2019. The ECB kept policy rates unchanged and the Governing Council's economic assessment was more upbeat on economic growth. Central banks in the UK, Norway and Japan kept monetary policy unchanged.

In our duration strategy we are underweight US rates and marginally underweight Japanese rates. We held a modest underweight position in UK rates over the course of the month. The UK yield curve remains relatively flat and UK rates have recently outperformed relative to Europe. We are overweight rates in Europe versus Sweden and the UK.

**Agency MBS** closed 2017 on a strong note outperforming duration-neutral Treasuries by 16 bps in December, 14bps in the fourth quarter, and 52bps for the full year. Agency MBS spreads were supported by firm investor demand and low interest rate volatility for the remainder of the year. Other securitized sectors also performed well due to strength in economic data and firm demand for spread assets. Low consumer debt-to-income levels has been particularly supportive for asset backed securities (ABS) sectors, including credit card, auto and student loan ABS. Non-agency MBS returns were also positive in 2017 given house price gains and an improvement in borrower fundamentals. We are underweight agency MBS. We expect spreads to widen as the pace of Fed reinvestment slows and amidst a seasonal increase in MBS supply. We expect net MBS supply to remain elevated in 2018, driven by continued strength in the US housing market. Within the agency MBS sector we are overweight higher coupons. We are also overweight high quality floating rate securitized credit and remain overweight residential mortgage credit.

Spreads on the Bloomberg Barclays Global Aggregate Corporates index tightened over sovereigns in December. We think **investment grade corporate credit** valuations are stretched and we see risks as skewed toward wider spreads from current historical lows. We are overweight intermediate maturity part of the credit curve, and we are overweight Financials versus Industrials.

## Contact us

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We are overweight US Banks and Insurance companies which may benefit from a looser regulatory backdrop and higher rates. We are underweight Media due to secular challenges posed from a change in consumer demand, lower advertising revenues and subscriber losses. We are also underweight Electricians due to the sectors tendency to underperform in a rising rate environment.

## Fund commentary

Fund performance matched the benchmark this month, returning 0.27% and 1.08% vs benchmark of 0.98% for the quarter. Duration strategy contributed the most to performance with 5bps over the month and 10bps over the quarter. Stock selection within government and swaps added 6bps over the quarter. The largest negative impact was from security selection of securitized debt (-3bps for month and -7 bps for quarter) and emerging market debt (-1bps for the month and -5 for the quarter).

## Key fund facts

### Strategy launch date

October 2008

### Strategy FUM

\$253.3m

### 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%.

## Compliance

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

### Important Information

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