

# 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

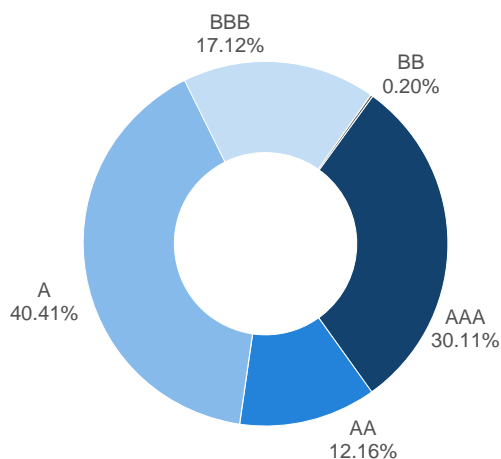
The aim is to outperform the benchmark by 1.00% per annum before fees, expenses and taxes over a rolling three year period.

### 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

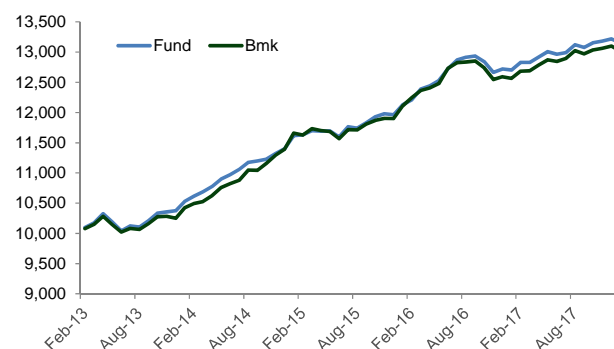
	Gross <sup>1</sup>	Benchmark	Net <sup>2</sup>
1 month	-0.51%	-0.64%	-0.54%
3 months	-0.03%	-0.16%	-0.27%
1 year	3.51%	3.59%	2.57%
2 years	4.13%	3.68%	3.23%
3 years (pa)	4.22%	3.74%	3.25%
5 years (pa)	5.63%	5.41%	
10 years (pa)	6.80%	6.76%	

- 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	44.00%	51.17%
Agency	5.99%	9.08%
Collateralised & MBS	29.01%	12.04%
Credit	16.63%	21.37%
Emerging market debt	6.33%	6.34%
Cash, derivatives, other	-2.96%	0.0%

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



## Duration and yield

Duration	Fund 6.51 years vs benchmark 6.89 years
Yield (in NZD)	Fund (gross) 3.10% vs benchmark 2.85%

## Key fund facts

<b>Strategy launch date</b> October 2008	<b>Distributions</b> Distributes calendar quarters
<b>Strategy FUM</b> \$253.9m	<b>Benchmark</b> Bloomberg Barclays Global Aggregate Index, hedged into NZD
<b>Fund structure</b> PIE fund – wholesale and retail	<b>Hedging</b> All investments will be hedge to New Zealand dollars within an operational range of 98.5% - 101.5%.
<b>Fees in retail fund:</b> Management fee 0.65%p.a Expenses (maximum) 0.25%p.a Expenses (current) 0.25%	
<b>Buy/sell spread</b> Nil	

## Market commentary (source: GSAM)

The Fed kept policy unchanged at its January meeting and the Federal Open Market Committee (FOMC) statement included no material change in views, though policymakers did note that they expect “further” gradual adjustments in monetary policy, suggesting there is scope for upward revisions to the median projection for three rate hikes this year. The BoC raised rates by 25bps at its first monetary policy meeting of the year, with Governor Poloz stating that the central bank is “data dependent, and there’s no question that the data on balance since October have been stronger than our base case.”

**The US economy** is in healthy shape and we continue to think the market is underestimating the pace of Fed rate hikes. In Europe we think inflation will surprise to the downside and warrant prolonged low policy rates and we are overweight European rates. An upside surprise in US inflation data led to underperformance in US rates. We removed our underweight position in Japanese rates. The trade benefitted from a continued basis widening between Japanese swaps traded onshore and offshore, as offshore investors increased underweight positions on speculation that Bank of Japan (BoJ) will shift away from its ultra-accommodative monetary policy.

**Agency mortgage-backed securities (MBS)** commenced 2018 on a weak note, underperforming duration-neutral US Treasuries by 15bps in January amid a pick-up in rate volatility following stronger-than-expected economic data. US policymakers announced measures that seek to discourage lenders from excessive refinancing of veterans’ home loans.

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We remain underweight agency MBS based on valuations and our negative outlook for the technical backdrop, given increased supply in the coming months will coincide with the Fed’s shrinking footprint in the market. Within the sector we are underweight lower coupon securities and overweight higher coupons. Among securitized credit sectors, we maintain exposure to Federal Family Education Loan Program (FFELP) asset backed securities (ABS). These securities offer an attractive spread premium with strong credit protection. We also favor 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 less constructive on longer spread duration, senior commercial mortgage backed securities (CMBS), where valuations look unattractive.

Investment grade **corporate credit** performed well in January, with spreads on the Bloomberg Barclays Global Aggregate Corporates index tightening by 9bps to 85bps over sovereigns. We remain neutral to modestly overweight investment grade credit in dedicated credit portfolios and neutral in multi-sector fixed income portfolios where we prefer securitized credit for yield. We think the US Administration’s fiscal and regulatory agenda, alongside macro and earnings momentum has potential to carry the current credit and economic cycle further. That said, we recognize that credit markets are faced with countervailing forces and so we are cautiously optimistic in our outlook. We remain overweight Financials versus Industrials, as we expect the former to outperform in a rising rate environment. In particular, we are overweight US Banks and Insurance companies that we think stand to benefit from a looser regulatory environment and higher rates. We also expect a decline in issuance due to lower total loss-absorbing capacity (TLAC) funding needs to serve as a tailwind for the Financial sector. In contrast, we see M&A-related headwinds facing Industrials. We are positive on Pipelines where we see improvements in balance sheets, and we are underweight Media due to secular challenges, including subscription losses and price competition from bundled service packages. We remain underweight Electrics given the sectors tendency to underperform in a rising rate environment.

## Fund commentary

The fund outperformed the benchmark over the month, returning -0.51% vs -0.64%. The main contributors were security selection within the securitized debt sector (0.05%), emerging market debt (0.03%) and corporate bond selection (0.02%). Duration strategy was a small contributor (0.02%).

## Compliance

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

### Important Information

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