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

The Fund 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.

Benchmark

Bloomberg Barclays Global Aggregate Index, hedged into NZD

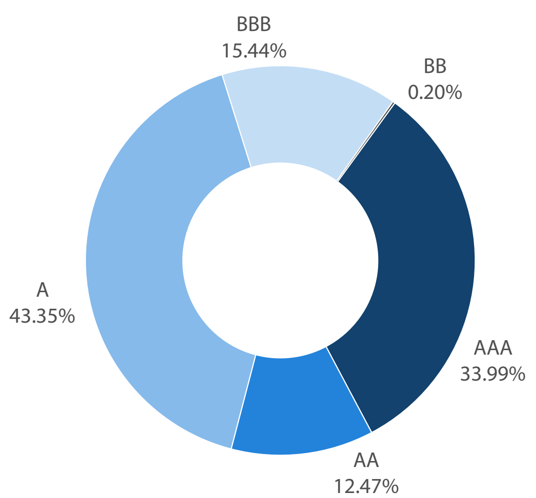
Performance objective

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 US$525 billion of global fixed income and currency assets.

Performance summary

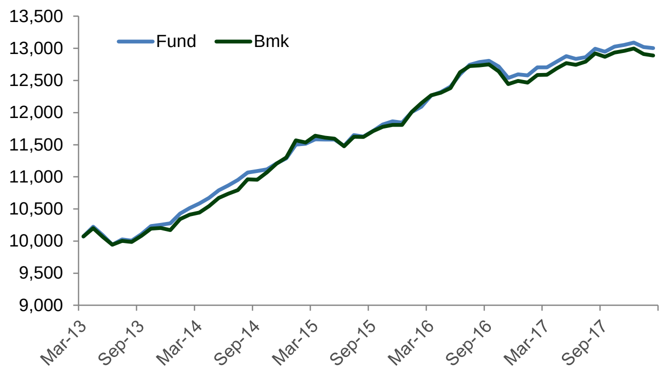
	Gross[1]	Benchmark	Net[2]
1 month	-0.15%	-0.20%	-0.32%
3 months	-0.39%	-0.57%	-0.74%
1 year	2.35%	2.41%	1.24%
2 years	3.70%	3.00%	2.66%
3 years (pa)	4.13%	3.77%	3.07%
5 years (pa)	5.39%	5.20%	
10 years (pa)	6.73%	6.66%	

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.

Sector Allocation

	Fund	Index
Governments	47.86%	51.43%
Agency	6.46%	9.01%
Collateralised & MBS	29.29%	12.06%
Credit	15.88%	21.12%
Emerging market debt	6.38%	6.38%
Cash, derivatives, other	-5.87%	0.0%

Five year cumulative performance (gross) [1]



Duration and yield

Duration	Fund 6.11 years vs benchmark 6.91 years
Yield (in NZD)	Fund (gross) 2.97% vs benchmark 2.89%

Key fund facts

Strategy launch date
October 2008

Strategy FUM
$255.7m

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 hedged to New Zealand dollars within an operational range of 98.5% - 101.5%.

Market commentary (source: GSAM)

US Fed Chairman Jerome Powell noted an improvement in the outlook for the economy since the December FOMC meeting. Firmer-than-expected US wage and price inflation data prompted a spike higher in market volatility at the start of the month. The magnitude of equity market moves was accentuated by quantitative and volatility-oriented trading strategies. Fixed income sectors, particularly high yield corporate credit and emerging market debt, were not immune to the risk-off sentiment that ensued, but moves were more muted than in prior instances of higher market volatility.

Duration strategy: We are underweight US rates, marginally underweight Swedish rates and marginally overweight rates in Europe. We remain bearish on US rates and have raised our forecast from three to four hikes in 2018, still above the Fed and market expectations, even after the recent repricing. We are also bearish on rates in Sweden due to rising policymaker focus on financial stability, in addition to inflation. And although inflation surprised to the downside recently, we continue to expect a rate hike later this year, though we do appreciate risks are now skewed to a later move.

Agency mortgage-backed securities (MBS) underperformed duration-neutral Treasuries by 10bps in February, due to higher rate volatility. Muted demand from banks and the Fed has also contributed to the sector's underperformance. Within Agency MBS, lower coupon mortgages underperformed higher coupon mortgages amid yield curve steepening, with longer term rates rising.

Potential regulatory actions against servicers engaging in aggressive refinancing of Veteran Affairs (VA) mortgages also resulted in outperformance of higher coupon Ginnie Mae MBS over the month. The US Appeals Court ruled that risk retention rules under Dodd-Frank legislation do not apply to certain collateralized loan obligation (CLO) transactions. Issuance of CLOs has been robust, amounting to $282bn in 2017 and $20 bn year to date (YTD), and this change in regulation may lower barriers to entry for new CLO managers and see the size of the market expand further.

High grade **corporate credit** shrugged off recent episodes of volatility, with spreads widening marginally and by less than in prior instances of higher volatility. Fundamentals remain solid with strong fourth quarter earnings and revenue growth. We see further upside potential for earnings given US tax reform and ongoing macro momentum, and do not think wage or price pressures will weigh on profit margins in the near term. That said, the Fed's balance sheet unwind will gather pace this year and there is scope for portfolio rebalancing effects to reverse, thereby offering reduced support for investment grade. We are also watchful of increased mergers and acquisitions activity at this late stage of the cycle.
We are cautiously optimistic on corporate credit, in part due to elevated valuations. Among sectors, we are overweight US Banks and Insurance companies that stand to benefit from a rising rate environment and a potentially looser regulatory backdrop, as well as higher market volatility which can support capital market activity. Broadly speaking, we expect a lower statutory corporate tax rate to serve as a tailwind for US firms, including banks, and we also see scope for technical support due to lower issuance for total loss-absorbing capacity (TLAC) requirements. We are underweight Media which faces secular challenges including fee pressure, increased bundling of services and changing advertisement habits which have dented traditional revenue streams. We are also underweight Electrics given the industry's tendency to underperform in a rising rate environment. We are cautious on Pharmaceuticals due to poor management, scope for increased leverage and drug pricing pressures.

Fund commentary

The fund outperformed the benchmark over the month, returning -0.15% vs -0.20%. Duration strategy was the main contributor (0.08%) followed by Sector allocation (0.04%).

Compliance

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

Contact us

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