Factsheet 31 August 2018

NIKKO AM NZ GLOBAL BOND STRATEGY

Applies to: Nikko AM Wholesale Global Bond Fund and Nikko AM Global Bond Fund (retail)

Market Overview

- Emerging market (EM) assets and in particular EM currencies came under pressure in August amid country-specific developments.
- US Federal Reserve (Fed) Chair reinforced the case for gradual monetary tightening given "strong" growth in income and jobs.
- The European Central Bank (ECB) refreshed its forward guidance at its June meeting which may suggest a rate hike in the third or fourth quarter next year, rather than early 2020, as priced by the market.

Fund Highlights

- The fund maintains preference for the US over Europe due to lingering political uncertainties in the latter and given reduced central bank support as the ECB prepares to end its quantitative easing program this year. The fund remains overweight US Banks and Insurance companies.
- The fund is also overweight Pipeline companies given firmer oil prices.
- The fund remains underweight agency MBS as we expect spreads to widen further in response to the Fed's balance sheet reduction.

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. GSAM's Global Fixed Income Team manages over US$525 billion of global fixed income and currency assets.

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.

Objective

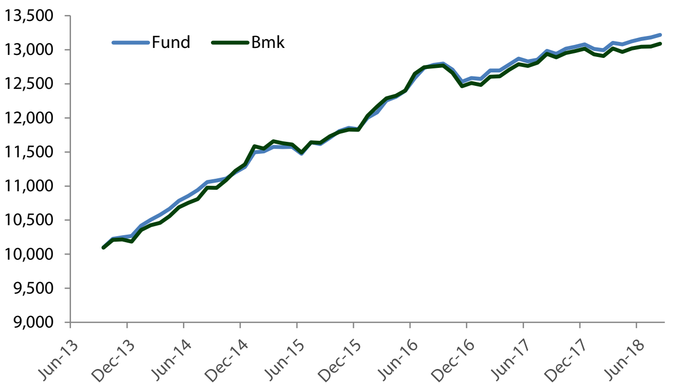
The fund aims to outperform the benchmark return by 1.00% per annum before fees, expenses and taxes over a rolling three year period.

Performance

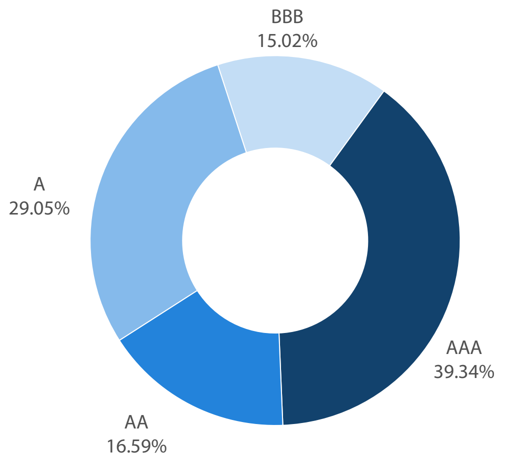
	One month	Three months	One year	Three years (p.a.)	Five years (p.a.)	Ten years (p.a.)
Wholesale[1]	0.27%	0.71%	1.80%	4.39%	5.74%	6.58%
Benchmark[2]	0.31%	0.53%	1.14%	4.00%	5.53%	6.49%
Retail[3]	0.38%	0.64%	0.83%	3.29%		

1. Returns are before tax and before the deduction of fees
2. Benchmark: Bloomberg Barclays Global Aggregate Index, hedged into NZD. No tax or fees.
3. Returns are before tax and after the deduction of fees and expenses and including tax credits (if any)

Five Year Cumulative Performance[1, 2]



Asset Allocation



Sector Allocation (% of fund)	Fund	Index
Governments	28.11%	50.82%
Agency	9.69%	8.88%
Collateralised & MBS	35.08%	12.41%
Credit	21.52%	21.30%
Emerging market debt	7.00%	6.59%
Cash, derivatives, other	-1.40%	0.00%

Duration
Fund 6.19 years vs Benchmark 6.89 years

Yield
Fund (gross) 3.32% vs Benchmark 2.83%

Market Commentary (source: GSAM)

Emerging market (EM) assets and in particular EM currencies came under pressure in August amid country-specific developments. This included concerns around external funding needs in Turkey and Argentina, and doubts around economic reform progress in South Africa.

The US Federal Reserve (Fed) Chair's speech was consistent with minutes from the most recent Federal Open Market Committee (FOMC) meeting minutes reinforcing the case for gradual monetary tightening given "strong" growth in income and jobs. Italian rate volatility spiked higher intra-month on investor concerns around Italy's upcoming budget breaching European Union rules that limit government deficit-to-GDP ratios at 3%. That said, the spread over equivalent maturity German government bonds has more recently narrowed on comments from Italian policymakers, including Finance Minister Giovanni Tria, who reaffirmed "budget stability will be respected". **Agency mortgage-backed securities** (MBS) underperformed duration-neutral Treasuries by 0.11% in August and agency MBS spreads widened modestly over the month amid risk-off investor sentiment induced by ongoing US-China trade tensions and turbulence in Turkey. **Investment grade corporate credit** weakened in August. Europe underperformed the US and the UK, with spreads on respective regional indexes widening over sovereigns. Credit derivatives outperformed cash bonds in both US and Europe, with spreads widening.

Fund Commentary

The fund underperformed the benchmark over the month, returning 0.27% vs 0.31% (gross, NZD). Country selection and emerging markets contributed to performance, while corporate and government debt underperformed. We remain underweight agency MBS as we expect spreads to widen further in response to the Fed's balance sheet reduction. Within the agency MBS sector, we are underweight lower coupon securities given high new supply and we are overweight higher coupons. We are overweight high quality floating rate securitized credit, of which senior collateralized loan obligations (CLOs) and Federal Family Education Loan Program (FFELP) asset-backed securities are our favoured expressions. We also remain overweight residential mortgage credit. Recent underperformance is consequence of several factors including European political uncertainties (centred on the upcoming Italian budget), high new supply and EM volatility.

Key Fund Facts

Distributions

Wholesale fund: Calendar quarter
Retail fund: Calendar quarter

Estimated annual fund charges

Wholesale: Negotiated outside of unit price
Retail: 0.90%, refer PDS for more details

Hedging

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

Buy / Sell spread

0.00% / 0.00

Strategy size

$245.1m

Strategy Launch

October 2008

Compliance

The Fund complied with its investment mandate and trust deed during the month.

Contact Us

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