

Factsheet 31 October 2018

NIKKO AM GLOBAL BOND STRATEGY

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

Market Overview

- We remain bearish front-end US rates as we think market-implied pricing for US Federal Reserve (Fed) policy over the next year is inconsistent with ongoing strength in US macro fundamentals.
- October was a sobering month for global risk asset prices. Leveraged loans fared better than most other fixed income spread sectors, and credit spread sectors fared better than equity markets.
- Investor sentiment improved into month-end on strong economic data and healthy third quarter corporate earnings releases.

Fund Highlights

- The Fund underperformed the benchmark over the month, returning -0.35% vs -0.22% (gross, NZD).
- Duration strategy contributed most to performance while country selection underperformed over the month.
- We are overweight investment grade corporate credit. We viewed the recent sell-off as an opportunity to add to our modest overweight exposure to the sector.

Performance

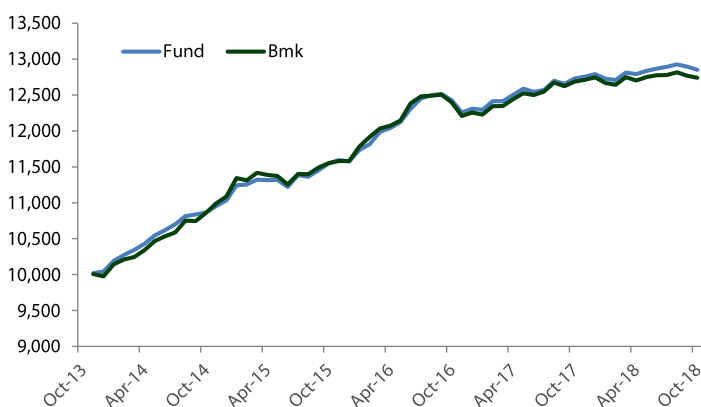
	One month	Three months	One year	Three years (p.a.)	Five years (p.a.)	Ten years (p.a.)
Wholesale ¹	-0.35%	-0.31%	0.95%	3.63%	5.14%	6.89%
Benchmark ²	-0.22%	-0.29%	0.43%	3.32%	4.96%	6.52%
Retail ³	-0.24%	-0.20%	0.17%	2.68%		

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}



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.

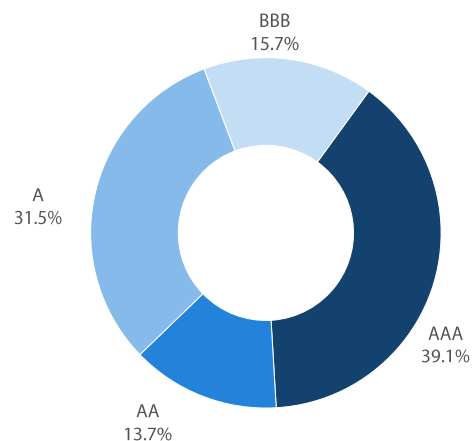
Overview

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

Asset Allocation



NIKKO AM NZ GLOBAL BOND STRATEGY

Sector Allocation (% of fund)	Fund	Index
Governments	27.48%	50.72%
Agency	8.98%	8.82%
Collateralised & MBS	33.52%	12.58%
Credit	25.33%	21.27%
Emerging market debt	6.81%	6.61%
Cash, derivatives, other	-2.12%	0.00%

Duration
Fund 7.21 years vs Benchmark 6.87 years

Yield
Fund (gross) 3.44% vs Benchmark 2.91%

Market Commentary (source: GSAM)

We remain bearish on short term US rates as we think market-implied pricing for US Federal Reserve (Fed) policy over the next year is inconsistent with ongoing strength in US macro fundamentals. That said, we were modestly overweight US rates intra-month, owing to an overweight position in long-end US rates. Elsewhere in macro markets, we are positioned for looser financial conditions in Europe relative to several other developed markets (DM) including Sweden and the UK. We think faltering growth momentum alongside still-subdued core inflation will prolong monetary accommodation in the Euro area. In contrast, we see scope for monetary policy normalization to commence in Sweden given decent inflation readings and hawkish policymaker commentary. October was a sobering month for global risk asset prices. Leveraged loans fared better than most other fixed income spread sectors, and credit spread sectors fared better than equity markets. Investor sentiment improved into month-end on strong economic data and healthy third quarter corporate earnings releases. We used underperformance in US corporate credit as an opportunity to add to our modest overweight exposure.

Fund Commentary (source: GSAM)

The fund underperformed the benchmark over the month, returning -0.35% vs -0.22% (gross, NZD). Duration strategy contributed the most to performance while country selection detracted. We remain underweight Agency MBS and we expect spreads to widen further due to absent bank demand alongside Fed balanced sheet reduction. A mild tailwind for the sector in the coming months will be a slowdown in a new supply following seasonally high issuance over the summer months.

We are overweight investment grade corporate credit. We viewed the recent sell-off as an opportunity to add to our modest overweight exposure to the sector; we considered the magnitude of recent underperformance to be unwarranted given strength in the US macro backdrop and healthy corporate earnings growth. Technical factors are also supportive, particularly for the US market. Dollar strength has bolstered demand from foreign investors on an unhedged basis, while new supply volume is tracking below last year's pace, with limited issuance expected into year-end.

Key Fund Facts

Distributions		Estimated annual fund charges	
Wholesale fund:	Calendar quarter	Wholesale:	Negotiated outside of unit price
Retail fund:	Calendar quarter	Retail:	0.90%, refer PDS for more details
Hedging		Buy / Sell spread	Strategy size
All investments will be hedged to New Zealand dollars within an operational range of 98.5% - 101.5%.		0.00% / 0.00%	\$246.3m
		Strategy Launch	October 2008

Compliance

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

Contact Us

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