nikko am
Nikko Asset Management

Factsheet 28 February 2019

NIKKO AM GLOBAL BOND STRATEGY

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

Market Overview

- Minutes from the January Federal Open Market Committee (FOMC) meeting confirmed the US Federal Reserve's (Fed) dovish stance which has since been followed by dovish meeting outcomes in Europe, Australia and to some extent Canada.
- The Bank of England (BoE) also sounded cautious at its most recent meeting, though much of its guidance is clouded by Brexit-related uncertainty.
- Risk assets have been supported by accommodative central bank stances broadening out beyond the Fed and de-escalation in US-China trade tensions, with US President Donald Trump announcing he will delay the increase in tariff rate on $200bn of imports from China, previously scheduled to take effect from March 2.

Fund Highlights

- The fund outperformed the benchmark over the month.
- Sector allocation was the main attributor (+0.11%), followed by stock selection within the corporate bond sector (+0.02%). Country allocation was a small detractor (-0.02%).

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

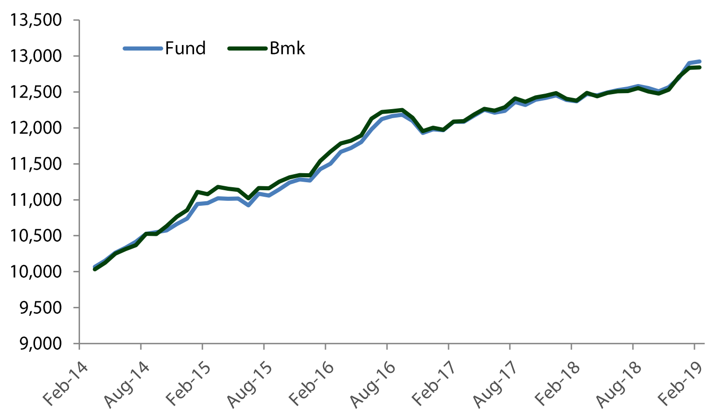
The Strategy aims to outperform the benchmark return by 1% per annum before fees, expenses and taxes over a rolling three year period.

Performance

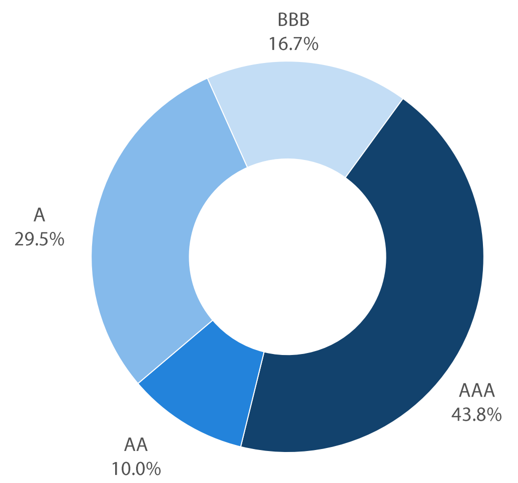
	One month	Three months	One year	Three years (p.a.)	Five years (p.a.)	Ten years (p.a.)
Wholesale[1]	0.17%	2.85%	4.49%	3.96%	5.26%	6.88%
Benchmark[2]	0.05%	2.47%	3.74%	3.24%	5.13%	6.23%
Retail[3]	0.45%	2.60%	3.62%	2.98%	4.24%	

1. Returns are before tax and before the deduction of fees. Based on actual calendar periods.
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). Based on change in unit price.

Five Year Cumulative Performance[1, 2]



Asset Allocation



Sector Allocation (% of fund)	Fund	Index
Governments	28.94%	50.97%
Agency	8.17%	8.68%
Collateralised & MBS	30.83%	12.57%
Credit	27.17%	21.14%
Emerging market debt	7.04%	6.64%
Cash, derivatives, other	-2.15%	0.00%

Duration
Fund 6.76 years vs Benchmark 6.88 years

Yield
Fund (gross) 2.97% vs Benchmark 2.57%

Market Commentary (source: GSAM)

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Fund Commentary (source: GSAM)

In our **duration strategy**, we are underweight short term US rates. Despite the recent dovish shift from the Fed, we think resumed positive momentum in macro data and firmer inflation could lead the Fed to shift its stance once again and raise rates later this year. We are also modestly underweight Canadian rates. At its early March meeting, the Bank of Canada kept policy and emphasized elevated policy and growth uncertainty. That said, we think the bias is still for rates to move higher this year. We are modestly underweight agency **Mortgage Backed Securities** and remain cautious on the sector ahead of unfavourable seasonal dynamics including high supply amid the US home-buying season and the Fed's ongoing balance sheet reduction. Within the sector, we are underweight lower coupon securities while overweight higher coupon securities. We prefer to express our overweight in higher coupon securities in specified pools rather than TBAs, as specified pools offer more attractive collateral characteristics including lower loan balances and attractive convexity characteristics given lower prepayment risk. This position was challenged during the December sell-off but has recently performed well. Elsewhere, we are overweight high-quality, floating-rate securitized credit senior collateralized loan obligations (CLOs) and Federal Family Education Loan Program (FFELP) asset-backed securities are our favoured expressions. We remain overweight US **corporate credit** but scaled back our exposure over the course of the month in light of spread tightening and we are underweight sterling-denominated corporate credit. We see US corporate credit benefiting from low rate volatility, a pause in Fed rate hikes and demand from foreign investors (due to lower currency hedging costs), though we recognize higher new supply from Industrials tends to be a modest headwind for the sector toward the end of the first quarter. We remain overweight BBB-rated bonds due to attractive carry relative to A-rated bonds. We are overweight Healthcare with a focus on companies reducing leverage post debt-funded acquisitions. We are also overweight Pipeline companies where we see management commitment to de-leveraging. Elsewhere, we are underweight Auto issuers who face challenges that are both cyclical and secular in nature.

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

$261.2m

Strategy Launch

October 2008

Exclusions: Investments in tobacco manufacturers and 'controversial weapons'

Compliance

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

Contact Us

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