

NIKKO AM GLOBAL BOND STRATEGY

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

Market Overview (source: GSAM)

- The US Federal Reserve (Fed) is being pushed toward cutting interest rates this year by an accumulation of factors, including soft inflation and domestic economic data, continued growth headwinds from unresolved US-China trade negotiations and subdued global activity.
- Credit spreads widened in May amid a re-escalation in US-China trade tensions, though moves were relatively orderly and less pronounced relative to other risk assets.

Fund Highlights

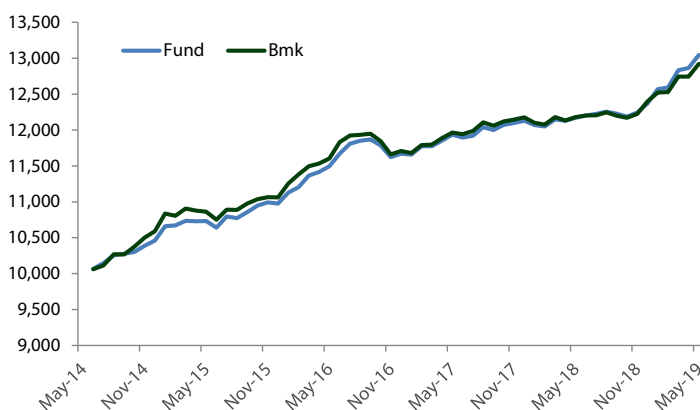
- The portfolio outperformed its benchmark over the month of May.
- Outperformance was predominantly driven by our security selection in the Securitised sector and Country allocation strategies, with a smaller contribution from Duration strategy. Security selection within the Government/swap selection detracted value.

Performance

	One month	Three months	One year	Three years (p.a.)	Five years (p.a.)	Ten years (p.a.)
Wholesale ¹	1.42%	3.61%	7.19%	4.30%	5.46%	6.89%
Benchmark ²	1.41%	3.15%	6.09%	3.66%	5.26%	6.35%
Retail ³	1.10%	3.06%	6.04%	3.22%	4.36%	

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, \$10,000 invested^{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.

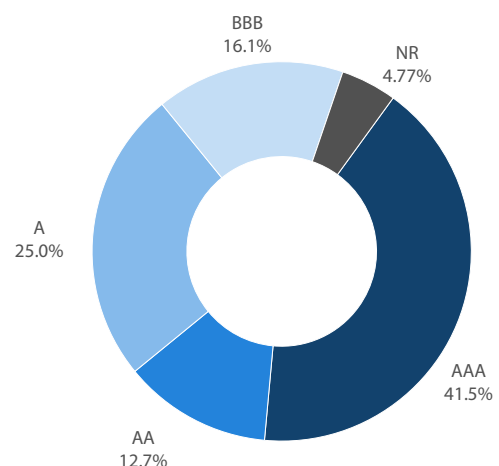
Overview

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% 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	36.74%	50.55%
Agency	8.23%	8.47%
Collateralised & MBS	31.64%	12.40%
Credit	22.42%	21.06%
Emerging market debt	6.75%	7.52%
Cash, derivatives, other	-5.78%	0.00%

Duration

Fund 6.84 years vs Benchmark 6.90 years

Yield

Fund (gross) 2.31% vs Benchmark 2.09%

Market Commentary (source: GSAM)

The US Federal Reserve (Fed) is being pushed toward cutting interest rates this year by an accumulation of factors, including soft inflation and domestic economic data, continued growth headwinds from unresolved US-China trade negotiations and subdued global activity, particularly in the manufacturing sector. Credit spreads widened in May amid a re-escalation in US-China trade tensions, though moves were relatively orderly and less pronounced relative to other risk assets. Global rates rallied amid rising trade policy uncertainty and the growing potential for the Fed to cut interest rates this year. Ten-year sovereign yields fell to year-to-date lows in the US and historical lows in Germany. The European yield curve continues to experience bull flattening, with declines in yields extending further out the curve on raised expectations of prolonged monetary policy accommodation in the region.

Fund Commentary (source: GSAM)

The portfolio outperformed its benchmark over the month of May. This was predominantly driven by our stock selection in the Securitised sector and Country allocation strategies, whilst our Government/swap selection detracted value.

Securitized selection strategy was the largest contributor to performance over the month. This was mainly driven by our specific selection of mortgage backed securities and asset backed securities.

The **Government**/swap selection strategy detracted over the month mainly due to concerns around slower economic growth, due to the possibility of anti-globalization sentiment gaining momentum, causing delayed or deferred investment plans and lower global trade.

We are overweight **investment grade corporate credit** but have scaled back exposure relative to earlier in the year. Given lingering trade policy uncertainty, we see reduced scope for the sector to benefit from spread compression. As such, our positioning is centred on attractive carry and roll down potential at the intermediate portion of the US credit curve.

We used mortgage spread widening as an opening to migrate from an underweight to flat position in the **Agency MBS** sector. We continue to favour Ginnie Mae securities versus Fannie Mae and Freddie Mac securities; in our view, this relative value view may help to insulate our exposures from volatility arising from commentary around GSE reform. Elsewhere, we are overweight high-quality, floating-rate securitized credit.

Key Fund Facts

Distributions		Estimated annual fund charges (inc GST)	
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%	\$291.8m
Exclusions: Investments in tobacco manufacturers and 'controversial weapons'			
		Strategy Launch	October 2008

Compliance

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

Contact Us

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