Factsheet 30 June 2019

NIKKO AM GLOBAL BOND STRATEGY

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

Market Overview (source: GSAM)

- Central banks in the US and Europe kept policy unchanged in June but adopted a dovish bias.
- The median projected interest rate hiking path in the US declined, with eight Federal Open Market Committee (FOMC) participants projecting rate cuts this year.
- Global rates also rallied in response to central banks putting monetary policy normalization on hold.

Fund Highlights

- The portfolio outperformed its benchmark over the month of June.
- Outperformance was predominantly driven by our cross-sector strategy. Corporate selection strategy also contributed to excess returns. Emerging market debt detracted from returns.

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

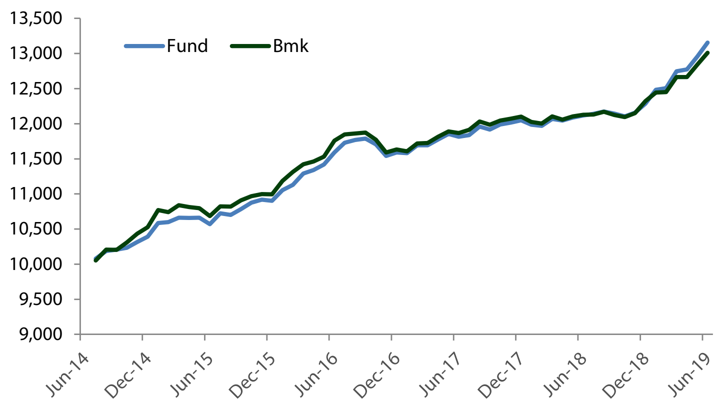
The Strategy aims to outperform the benchmark return by 1% per annum before fees, expenses and taxes over a rolling three year period.

Performance

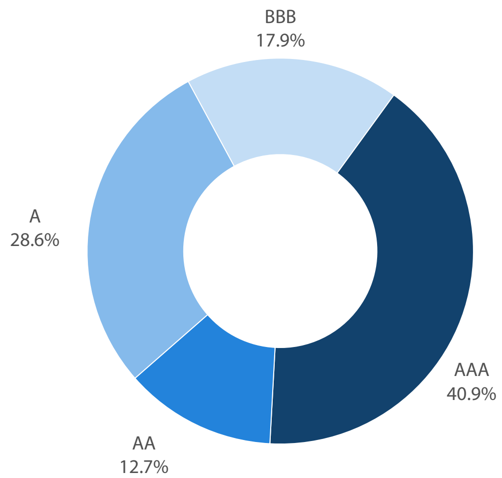
	One month	Three months	One year	Three years (p.a.)	Five years (p.a.)	Ten years (p.a.)
Wholesale[1]	1.54%	3.22%	8.55%	4.31%	5.64%	6.86%
Benchmark[2]	1.30%	2.72%	7.27%	3.42%	5.40%	6.37%
Retail[3]	1.60%	2.85%	7.51%	3.27%	4.55%	

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]



Credit Quality



Sector Allocation (% of fund)	Fund	Index
Governments	35.79%	50.38%
Agency	8.04%	8.41%
Collateralised & MBS	37.75%	12.16%
Credit	24.67%	21.14%
Emerging market debt	6.82%	7.91%
Cash, derivatives, other	-13.07%	0.00%

Duration
Fund 7.07 years vs Benchmark 6.98 years

Yield to Maturity
Fund (gross) 2.26% vs Benchmark 1.95%

Market Commentary (source: GSAM)

Central banks in the US and Europe kept policy unchanged in June but adopted a dovish bias. The median projected interest rate hiking path in the US declined, with eight Federal Open Market Committee (FOMC) participants projecting rate cuts this year. We see scope for "insurance cuts" given slowing growth, muted inflation pressures and elevated trade policy uncertainty. Similarly, a dovish speech by outgoing European Central Bank (ECB) President Mario Draghi signalled forthcoming easing in the Euro area. Risk assets responded favourably to prospects of ongoing policy accommodation. Global rates also rallied in response to central banks putting monetary policy normalization on hold.

Credit markets rebounded in June following May weakness, supported by dovish policy outlooks in both the US and Europe. US high yield corporate credit delivered a total return of 2.3% in June and option adjusted spreads tightened by 14bps to 377 bps. All 21 industries in the sector delivered a positive total return in June. Metals and Mining alongside Chemicals were the strongest performing sectors, while Retail and Diversified Media lagged. New issuance amounted to $28.5bn in June, with a decline in yields incentivizing primary market activity.

Fund Commentary (source: GSAM)

The portfolio outperformed its benchmark over the month of June. This was predominantly driven by our Cross Sector and Corporate selection strategies. Our specific selection within investment grade corporates in industrial and financial sectors also contributed to excess returns.

We continue to remain overweight the corporate sector as we expect supportive central bank policies to underpin economic growth, however, we are alert to ongoing trade policy uncertainties and rising input and wage costs which may challenge corporate earnings and profit margins.

Our Emerging market debt selection strategy, however marginally detracted from excess returns, mainly driven by our overweight exposure to Indonesian external sovereign debt.

Although Agency MBS underperformed in June as mortgage spreads continue to widen due to elevated volatility and a rally in rates, we have added overweight exposure to Agency mortgage-backed securities (MBS) at attractive valuations. We continue to favour Ginnie Mae securities versus conventional MBS. Our macro exposures are broadly unchanged. On a relative value basis we favour European and Antipodean rates, while we are underweight UK and Norwegian rates. We are overweight select emerging market (EM) currencies but alert to ongoing trade policy uncertainty which may temper performance in high beta assets.

Key Fund Facts

Distributions

Wholesale fund: Calendar quarter
Retail fund: Calendar quarter

Estimated annual fund charges (inc GST)

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

$298.5m

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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