Factsheet 31 July 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)

- The US Federal Reserve (Fed) delivered its first rate cut since 2008. Markets responded in a hawkish manner as Chairman Jerome Powell described the easing undertaken as a “mid-cycle adjustment”.
- Dovish central bank outlooks supported risk asset performance in July, with fixed income sector spreads tightening and peripheral sovereign bond yields trending lower.

## Fund Highlights

- The portfolio performed in line with benchmark for July.
- Positive performance was predominantly driven by our cross-sector strategy, while country and emerging market debt strategies detracted from performance.

## Performance

| | One month | Three months | One year | Three years (p.a.) | Five years (p.a.) | Ten years (p.a.) |
|---|---|---|---|---|---|---|
| Wholesale[1] | 0.72% | 3.72% | 9.14% | 4.15% | 5.62% | 6.74% |
| Benchmark[2] | 0.73% | 3.47% | 8.02% | 3.41% | 5.45% | 6.29% |
| Retail[3] | 0.62% | 3.35% | 8.12% | 3.22% | 4.53% | |

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.

## 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.

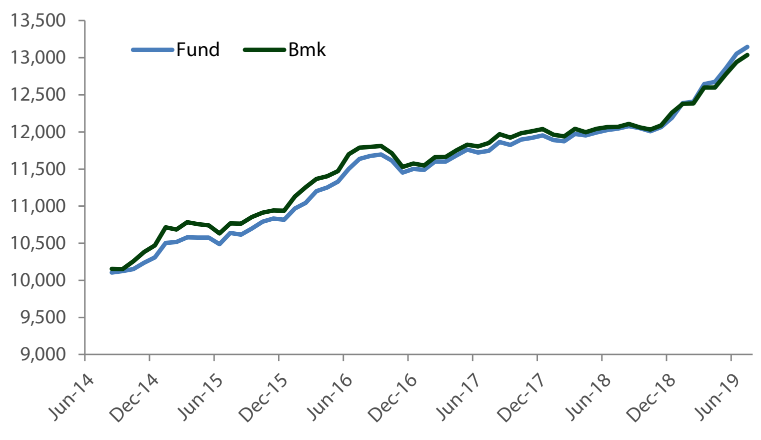
## Overview

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.

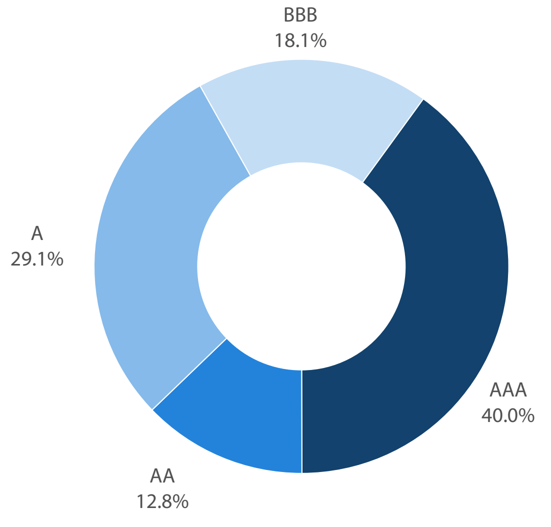
## Objective

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

## Five Year Cumulative Performance, $10,000 invested[1, 2]




## Credit Quality



nikko am
Nikko Asset Management

| Sector Allocation (% of fund) | Fund | Index |
|---|---|---|
| Governments | 35.46% | 50.12% |
| Agency | 7.14% | 8.32% |
| Collateralised & MBS | 40.86% | 12.18% |
| Credit | 25.47% | 20.93% |
| Emerging market debt | 6.72% | 8.45% |
| Cash, derivatives, other | -15.65% | 0.00% |

| Duration |
|---|
| Fund 6.92 years vs Benchmark 6.99 years |

| Yield to Maturity |
|---|
| Fund (gross) 2.05% vs Benchmark 1.84% |

## Market Commentary (source: GSAM)

The US Federal Reserve (Fed) delivered its first rate cut since 2008, cutting rates by 25bps and announced that it would end its balance sheet runoff process two months ahead of schedule. Markets responded in a hawkish manner as Chairman Jerome Powell described the easing undertaken as a “mid-cycle adjustment”. The European Central Bank kept policy unchanged but set the stage for a policy easing package in September, which we expect to include a rate cut, resumed asset purchases and strengthened forward guidance. The Bank of England left policy unchanged and maintained a tightening bias in the scenario that the UK departs the European Union (EU) in an orderly manner.
Dovish central bank outlooks helped risk assets including corporate credit and peripheral sovereign bond yields rally in July, though moves retraced somewhat in early-August amid an escalation in US-China trade tensions. The spread between French and Italian sovereign yields relative to Germany narrowed over the month. Core European rates also declined last month in anticipation of forthcoming ECB easing. Agency mortgage-backed securities (MBS) outperformed US Treasuries in July. Sector strength has recently retraced amid higher rate volatility around hawkish US trade rhetoric. Spreads on the Bloomberg Barclays Global Aggregate Corporates index declined over sovereigns in July. European credit strengthened amid raised expectations for prolonged monetary policy accommodation in the Euro area. US high yield corporate credit delivered a total return of 0.6% in July and option adjusted spreads tightened 6bps to 371 bps. Fed easing and strong second quarter earnings releases supported the sector, though risk sentiment was challenged by an escalation in US-China trade tensions toward the end of the month. Most industries delivered a positive total return, with the exception of Energy, Pharmaceuticals and Chemicals. Wireless, Telecommunications and Insurance were the strongest performing sectors.

## Fund Commentary (source: GSAM)

The portfolio performed in line with benchmark for July. Positive performance was predominantly driven by our cross-sector strategy, while country and emerging market debt strategies detracted from performance.
We are moderately overweight investment grade credit. We think supportive central bank actions will elongate the cycle and keep investment grade corporate credit supported in an environment of around-trend growth. We are overweight agency MBS as we think interest rate volatility and prepayment risks are adequately compensated for in current valuations. We continue to favour Ginnie Mae MBS over conventional MBS. Among sectors, we are overweight Cable, Building Materials and Leisure/Restaurants; these exposures seek to benefit from still strong consumer sentiment and spending capacity despite US-China trade tensions. That said, additional US tariffs proposed would impact Consumer goods. We have therefore added exposure to defensive sectors such as Packaging and Food & Beverage.

## 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**
$303.2m

**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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