Factsheet 31 August 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)

- US-China trade tensions and political uncertainty in Argentina contributed to risk-off market moves in August, with global rates trending lower, perceived safe-haven currencies trending higher and various fixed income spread sectors weakening. Elsewhere, formation of a new coalition government in Italy received a positive market response.
- UK rates underperformed on reduced prospects of a no deal Brexit.
- Rates in the US and UK continued to rally, European and Swedish curves steepened, while the Norwegian curve flattened. In Italy, formation of a new coalition government was met with a positive market response, with the spread between Italian and German sovereign debt narrowing.

Fund Highlights

- The portfolio outperformed the benchmark in August.
- Positive performance was predominantly driven by our securitised and corporate strategies, while duration, government 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]	2.43%	4.76%	11.49%	4.86%	5.91%	6.86%
Benchmark[2]	2.30%	4.38%	10.15%	4.17%	5.60%	6.40%
Retail[3]	2.74%	5.03%	10.66%	3.93%	4.91%	

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.

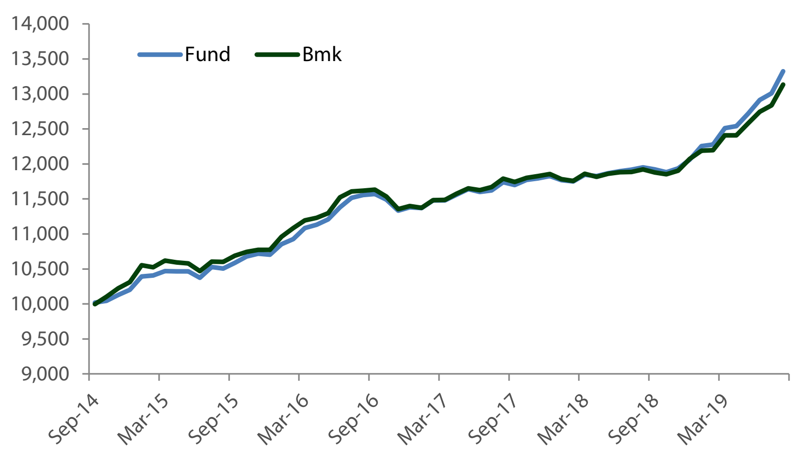
Overview

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.

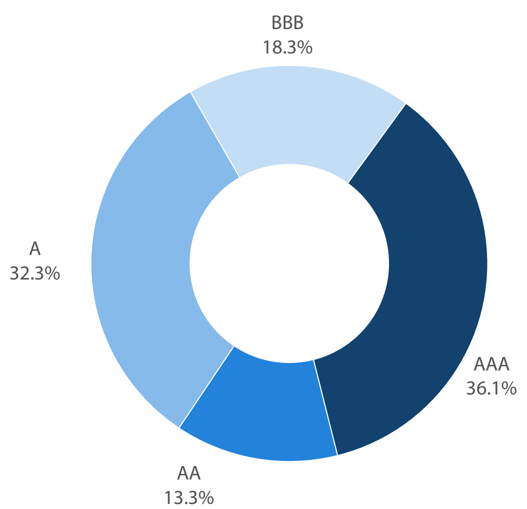
Objective

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



Sector Allocation (% of fund)	Fund	Index
Governments	35.09%	50.41%
Agency	5.89%	8.25%
Collateralised & MBS	42.45%	11.98%
Credit	26.63%	20.93%
Emerging market debt	7.89%	8.43%
Cash, derivatives, other	-17.95%	0.00%

Duration
Fund 6.61 years vs Benchmark 7.08 years

Yield to Maturity
Fund (gross)1.40% vs Benchmark 1.32%

Market Commentary (source: GSAM)

Global rates rallied amid global growth concerns, largely due to downside risks arising from US-China trade tensions. Moreover, expectations for additional monetary easing drove US rates lower, with the 30-year US Treasury yield falling to its lowest level on record. Prospects of the UK departing the European Union (EU) with "no deal" diminished due to Parliament passing a bill that requires an extension to the Article 50 process if a deal is not approved before October 19. In response, UK rates unwound some of their recent outperformance, which has largely been guided by political developments rather than the macro backdrop. European and Swedish curves steepened, while the Norwegian curve flattened. In Italy, formation of a new coalition government was met with a positive market response, with the spread between Italian and German sovereign debt narrowing. Agency mortgage-backed securities (MBS) underperformed US Treasury hedges over the month as risk-off market sentiment weighed on spread products. MBS spreads widened amid elevated interest rate volatility, raised concerns around prepayments and on high new issuance. Prepayment activity in July exceeded expectations, particularly in relation to the 2018 vintage of 3.5% and 4% coupons. Credit derivatives outperformed cash bonds in both the US and Europe. US high yield corporate credit delivered a total return of 0.40% in August, although option adjusted spreads widened by 22bps to 393bps. Returns in the first half of the month were negative, but rebounded in the second half. A decline in rates, facilitated by dovish expectations for near-term monetary policy, supported the sector toward the end of the month. That said, ongoing trade uncertainty and broader market volatility continues to overshadow risk asset performance.

Fund Commentary (source: GSAM)

The portfolio outperformed its benchmark over the month of August. This was predominantly driven by our Corporate and Securitised selection strategies, whilst our Duration and Government/swap selection strategy underperformed. Corporate selection strategy outperformance was mainly driven by our positioning centred on attractive carry and roll down potential at the intermediate portion of the US credit curve. Our Securitised selection strategy also contributed positively driven by the portfolio's specific selection of Mortgage backed securities, particularly our preference towards Ginnie Mae agency mortgage back securities. Our Duration strategy detracted from performance over the month. This was mainly driven by our underweight GBP rates position. The position has underperformed as GBP rates rallied over the month as the uncertainty surrounding Brexit have increased since Boris Johnson took the office and the end of current extension of article 50 started approaching. We continue to hold the position as we believe that probability of no-deal scenario is lower than marked implied probability, despite periods of higher volatility in the meantime. Our Government/swap selection strategy also detracted over the period, predominantly driven by our overweight exposure to Japan inflation linked bonds.

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

$307.3m

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

www.nikkoam.co.nz | nzenquiries@nikkoam.com