Factsheet 30 September 2019

NIKKO AM GLOBAL BOND STRATEGY

Assets are held in the Nikko AM NZ Wholesale Global Bond Fund. Nikko AM Global Bond Fund (retail) invests in units in the wholesale fund, which this commentary refers to.

Market Overview (source: GSAM)

- Key themes driving markets in September included monetary easing in the US and Europe, US-China trade tensions, Brexit-related uncertainty, oil price volatility and stress in short-term funding markets.
- Monetary easing gained momentum during the month. The US Federal Reserve (Fed) lowered the target range for the funds rate by 25bps to 1.75-2% and the European Central Bank (ECB) delivered an easing package that included a -10bps rate cut, strengthened forward guidance and resumed asset purchases which will be open-ended in nature with no scheduled end date.

Fund Highlights

- The portfolio performed in line with benchmark in September and outperformed over the quarter.
- Over the month, positive performance was predominantly driven by duration strategy. Over the quarter the main detractors were: country allocation (-11bps), Govt/Swaps (-11bps) and Emerging Markets (-12bps). Positive contributors were cross-sector allocation (+20bps), securitised (+15bps) and corporate (+12bps).

Performance

	One month	Three months	One year	Three years (p.a.)	Five years (p.a.)	Ten years (p.a.)
Wholesale[1]	-0.52%	2.63%	11.17%	4.63%	5.76%	6.66%
Benchmark[2]	-0.55%	2.47%	9.96%	3.93%	5.49%	6.24%
Retail[3]	-0.80%	2.55%	10.15%	3.61%	4.72%	

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.

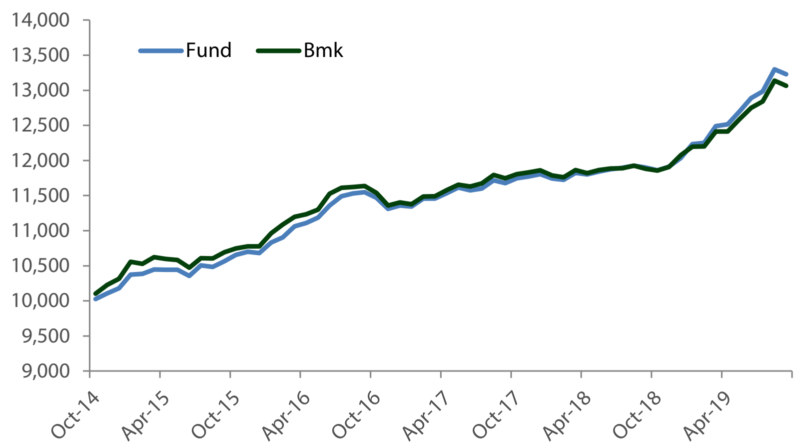
Overview

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.

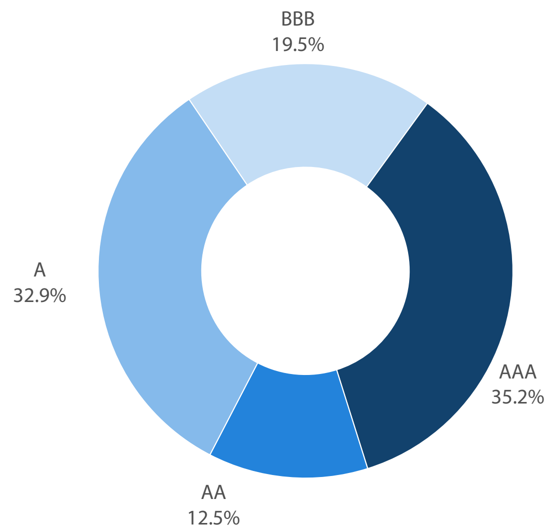
Objective

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	33.04%	49.78%
Agency	5.99%	8.24%
Collateralised & MBS	42.15%	12.11%
Credit	28.15%	21.03%
Emerging market debt	7.83%	8.84%
Cash, derivatives, other	-17.16%	0.00%

Duration
Fund 7.39 years vs Benchmark 7.07 years

Yield to Maturity
Fund (gross) 1.89% vs Benchmark 1.47%

Market Commentary (source: GSAM)

Key themes driving markets included monetary easing in the US and Europe, US-China trade tensions, Brexit-related uncertainty, oil price volatility and stress in short-term funding markets over September. Monetary easing gained momentum during the month. The US Federal Reserve (Fed) lowered the target range for the funds rate by 25bps to 1.75-2% and the European Central Bank (ECB) delivered an easing package that included a -10bps rate cut, strengthened forward guidance and resumed asset purchases which will be open-ended in nature with no scheduled end date. Risk sentiment fluctuated amid political news flow and central bank easing, though the S&P 500 Index ended the month slightly higher. G10 rate moves were mixed. US and core European sovereign bond yields rose on reduced expectations for additional near-term monetary easing. Oil prices increased sharply following an attack on a Saudi Arabian oil refinery. The disruption impacted around 5% of the world's daily oil production. Prices later retraced as production was resumed. Agency MBS outperformed US Treasury hedges supported by investor demand at the start of the month, though performance partially retraced over the course of the month amid heightened rate volatility. The Federal Housing Finance Agency (FHFA) and the Department of Housing & Urban Development (HUD) published proposals on housing finance reform. Reform plans will permit Fannie Mae and Freddie Mac to raise capital by retaining earnings up to $25 billion and $20 billion, respectively. Investment grade corporate credit strengthened in September as spreads on the Bloomberg Barclays Global Aggregate Corporates index tightened 3bps to 118bps over sovereigns. Dovish policy actions supported the sector despite ongoing concerns around the outlook for global growth given continued declines in activity data and trade protectionism. US high yield corporate credit delivered a total return of 0.36% in September and option-adjusted spreads tightened by 20bps to 373bps. Central bank easing, particularly in the US and Europe, was supportive for high yield credit, though ongoing trade uncertainty and broader market volatility continued to overshadow risk asset performance. Among sectors, Energy, Pharmaceuticals, and Financials lagged over the month, while the Autos, Insurance and Retail delivered the largest positive returns.

Fund Commentary (source: GSAM)

The portfolio performed in line with benchmark in September but outperformed over the quarter. This was predominantly driven by cross-sector allocation, corporate and securitised selection. Country strategies underperformed. Our Duration strategy was the largest contributor to performance over the month. This was mainly by our US tactical month-end auction strategy, which contributed to excess returns. In addition our underweight exposure to GBP curve also outperformed, as BoE unanimously remained on hold and formal hiking bias remained intact.

Our Corporate selection also contributed to excess returns, driven by our overweight bias to intermediate part of the credit curve, as well as our bias for BBB rated names. We remain overweight BBB-rated bonds from issuers that have committed to de-lever post M&A activity; second quarter earnings releases suggest management teams are allocating capital in line with these commitments. Additionally our specific selection of Investment grade industrials also contributed positively. Our Emerging market debt selection strategy however detracted driven by our overweight exposure to South Korean local rates and United Arab Emirates and Qatar external sovereign debt. Our Country strategy also detracted over the month. This was driven by our long US vs GBP 10y real yield and long CAD vs US 2y rates view.

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

$309.7m

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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