

Factsheet 31 October 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)

- The US Federal Reserve (Fed) delivered its third 25bps rate cut of 2019 and replaced a comment in its statement to “act as appropriate” with a more neutral comment that indicates the policy path is dependent on the evolution of data and trade developments.
- Spread sectors and emerging market (EM) currencies benefited from reduced political tail risks in October, as prospects of a no-deal Brexit declined and the tone of US-China trade relations improved.

## Fund Highlights

- The portfolio significantly outperformed benchmark for October.
- Positive performance was predominantly driven by country (+15bps), duration (+8bps) and cross-sector selection strategies (+8bps). The fund’s country allocation favours the US, Japan and Eurozone markets. Securitised (-2bps) and Emerging Market (-1bps) strategies were both a small drag on performance.

## Performance

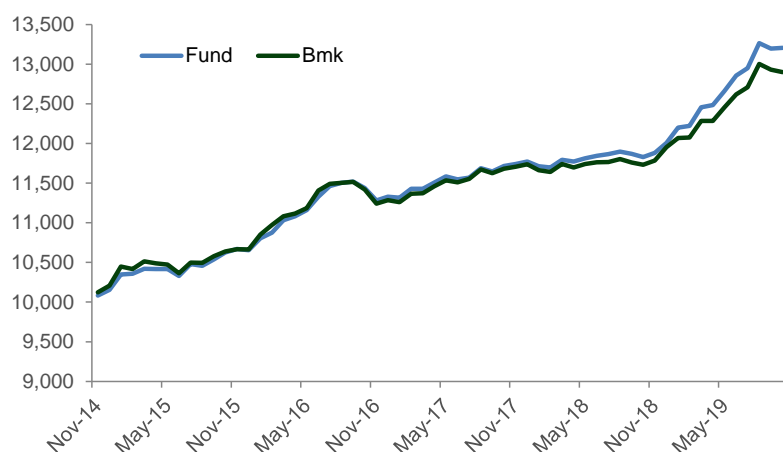
	One month	Three months	One year	Three years (p.a.)	Five years (p.a.)	Ten years (p.a.)
Wholesale <sup>1</sup>	0.09%	1.99%	11.65%	4.91%	5.72%	6.61%
Benchmark <sup>2</sup>	-0.24%	1.49%	9.94%	4.15%	5.22%	6.17%
Retail <sup>3</sup>	-0.39%	1.52%	9.99%	3.80%	4.62%	

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<sup>1, 2</sup>



## 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.

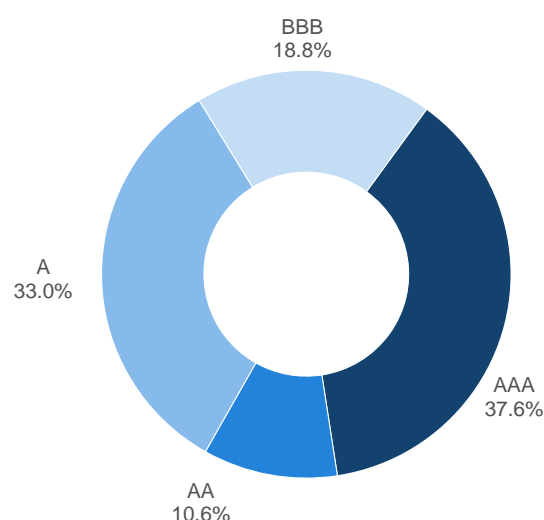
## Overview

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.

## Credit Quality



Sector Allocation (% of fund)	Fund	Index
Governments	31.79%	49.56%
Agency	5.71%	8.22%
Collateralised & MBS	38.12%	12.03%
Credit	28.4%	21.02%
Emerging market debt	6.54%	9.17%
Cash, derivatives, other	-10.81%	0.00%

Duration
Fund 7.18 years vs Benchmark 7.04 years
Yield to Maturity
Fund (gross) 1.97% vs Benchmark 1.56%

## Market Commentary (source: GSAM)

The US Federal Reserve (Fed) delivered its third 25bps rate cut of 2019 and replaced a comment in its statement to “act as appropriate” with a more neutral comment that indicates the policy path is dependent on the evolution of data and trade developments. Elsewhere in developed markets (DM), the policy rate was lowered in Australia but unchanged at other central banks, although the Bank of Canada’s (BoC) communication turned dovish. Spread sectors and emerging market (EM) currencies benefited from reduced political tail risks in October, as prospects of a no-deal Brexit declined and the tone of US-China trade relations improved. That said, within corporate credit, investors continue to prefer higher quality rating cohorts.

## Fund Commentary (source: GSAM)

The portfolio outperformed benchmark. The portfolio significantly outperformed benchmark for October. Positive performance was predominantly driven by country, duration and cross-sector selection strategies. The fund’s country allocation favours the US, Japan and Eurozone markets. We reduced overweight exposure to front-end US rates over the course of the month as market-implied pricing for Fed policy moved in line with our expectations. Elsewhere, we reduced underweight exposure to UK rates following a sell-off in UK rates on reduced prospects of a no-deal departure from the EU. We continue to reduce exposure to UK rates as we enter a period of heightened political uncertainty ahead of the early general election on December 12. We are moderately overweight. We expect accommodative monetary policy to support growth despite ongoing political uncertainty. That said, we are conscious of rising input and wage costs and moderating macro data which could challenge corporate fundamentals. We are overweight intermediate-maturity bonds and underweight longer-dated debt, particularly in the US. We have a down-in-quality bias as we expect certain issuers in the BBB-rated segment to reduce leverage and exhibit spending discipline. We are overweight Consumer Product issuers that benefit from monetary accommodation and healthy US consumer sentiment. We are also overweight Technology, while we are underweight Automotive due to the sector facing challenges from trade protectionism and structural shifts. We are also underweight Pharmaceuticals as we believe pressure on generic drug pricing and inorganic growth strategies could result in higher leverage. Regionally, we are overweight European corporates that stand to benefit from resumed quantitative easing. We remain overweight Agency MBS. We expect a combination of lower new supply, reduced prepayment speeds and attractive spread levels to support the sector into year-end.

## 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

\$321.0m

### 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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