Nikko Asset Management

Factsheet 30 November 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)

- Developed market (DM) central banks remained accommodative but left policy rates unchanged in November.
- Spread sectors and sovereign bond yields remained sensitive to headlines around US-China trade negotiations during the penultimate month of the year.
- UK political uncertainty remained elevated. We believe this creates dovish implications for Bank of England (BoE) policy with rates likely remaining unchanged in 2020 rather than trending higher.

Fund Highlights

- The portfolio outperformed benchmark for the month.
- Positive performance was predominantly driven by duration (+10bps), country (+7bps) and cross-sector selection strategies (+5bps).
- The fund's Government/Swaps strategy contributed to performance however Corporate (-6bps) and Securitised (-3bps) strategies both dragged on performance.

Performance

	One month	Three months	One year	Three years (p.a.)	Five years (p.a.)	Ten years (p.a.)
Wholesale[1]	-0.04%	-0.47%	11.10%	5.38%	5.54%	6.46%
Benchmark[2]	-0.17%	-0.96%	9.27%	4.63%	4.93%	6.02%
Retail[3]	0.33%	-0.86%	10.11%	4.34%	4.51%	

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.

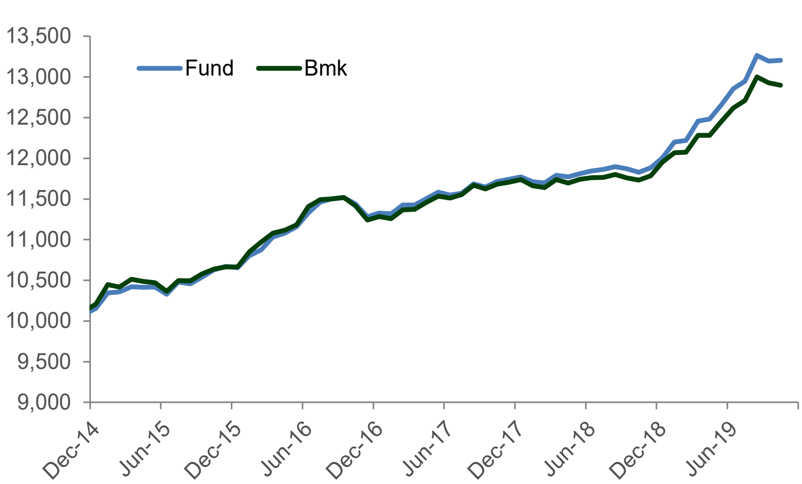
Overview

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.

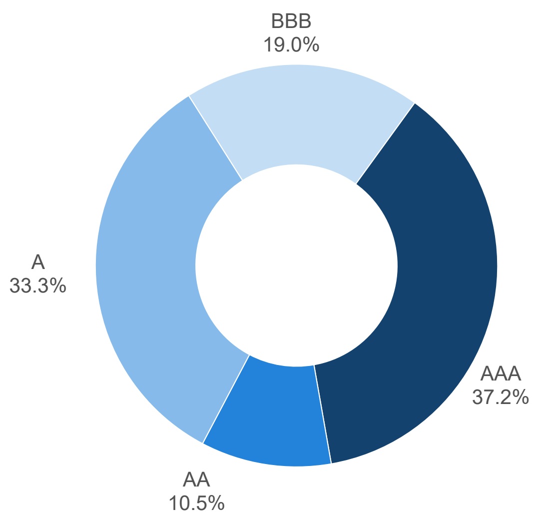
Objective

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	31.13%	49.16%
Agency	5.62%	8.15%
Collateralised & MBS	37.83%	12.07%
Credit	29.58%	21.05%
Emerging market debt	6.08%	9.57%
Cash, derivatives, other	-10.24%	0.00%

Duration
Fund 7.78 years vs Benchmark 7.07 years

Yield to Maturity
Fund (gross) 2.18% vs Benchmark 1.70%

Market Commentary (source: GSAM)

Monetary policy remains accommodative; however, no rate changes emerged from Developed Market central banks in November. Bond yields moved marginally higher over the course of the month on the back of tentative signs of improving global growth as well as rising optimism around prospects for a US-China trade deal. The ECB welcomed its new president, Christine Lagarde, whose first public address pointed to near-term policy continuity. UK political uncertainty remained elevated in November ahead of the early general election on December 12. Spread sectors and sovereign bond yields remained sensitive to incoming news around US-China trade negotiations last month. Optimism around prospects for a 'Phase 1' US-China trade deal contributed to improved investor sentiment, resulting in higher sovereign bond yields and spread sector strength. In Europe, Spanish and Italian rates underperformed (versus Germany) as politics weighted on investor sentiment toward European risk assets including peripheral country rates. The Bloomberg Barclays US mortgage backed securities (MBS) Index returned 0.08% in November. Agency MBS outperformed US Treasuries in the first half of the month as a sell-off in rates eased prepayment concerns. Reinvestment of pay-downs and strong demand from banks also supported performance early in the month. Sector strength moderated somewhat in the second half of the month as a rally in rates resulted in new supply. Overall, agency MBS basis has recovered in recent months as interest rates have stabilized and MBS supply has declined.

Fund Commentary (source: GSAM)

The portfolio outperformed benchmark. Positive performance was again driven by country, duration and cross-sector selection strategies. We are modestly overweight Japanese rates as we expect an unwinding of a sell-off that occurred during November on high new supply and amid receding expectations for additional Bank of Japan (BoJ) monetary easing. We are broadly neutral other DM rates. In the near-term, we expect the US Federal Reserve (Fed) to remain on hold; our 2020 outlook is dependent on both US-China trade relations and the evolution of economic data. In Europe, we expect interest rate volatility to moderate from current levels as the bar for further ECB rate cuts is relatively high. In the UK, we expect the BoE to keep policy unchanged until politic. The fund remains overweight agency MBS as valuations look attractive relative to history and relative to other asset classes. We also expect carry to improve as prepayment speeds moderate. Specified pool mortgages have significantly outperformed To Be Announced (TBA) mortgages this year due to a rally in rates (which tends to result in higher prepayment risk for TBAs) and deterioration of TBA collateral. Elsewhere, we have an up-in-quality bias in collateralized loan obligations (CLO) and have been increasing exposure to AAA- and AA-rated tranches. We have reduced exposure to Federal Family Educated Loan Program (FFELP) asset-backed securities, particularly longer-dated securities, given underperformance relative to broader credit markets and limited prospect for spread tightening in this legacy asset class. Investment Grade Corporates are moderately overweight. We expect accommodative monetary policy to support growth despite geopolitical uncertainty. That said, we are conscious of rising input and wage costs that may challenge corporate fundamentals. In aggregate, we expect range-bound spreads into year end. We are moderately overweight US high yield. Our sector, rating and security selection views are broadly unchanged on the month. We have moved to a modest underweight in Energy as the sector faces low oil prices and low market valuations. We reduced exposure to distressed Energy issuers as well as high-quality Energy issuers that we think exhibit lofty valuations.

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

$324.4m

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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