Factsheet 31 December 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)

- Risk sentiment improved toward the end of 2019 on announcement of a US-China "Phase One" trade deal and a decisive victory for the Conservative party in the December UK general election.
- 2019 was characterized by elevated political uncertainty, moderating macroeconomic data and proactive monetary accommodation. This sponsored a rally in global rates and an outperformance of spread sectors.

Fund Highlights

- The portfolio outperformed the benchmark by 9 basis points (bps) for the month, 54 bps for the quarter.
- Positive performance was predominantly driven by our Corporate Selection (+7bps), Cross- Sector (+6bps) and Government/Swaps (+2bps) strategies.
- The fund's Securitised (-4bps) and Country (-2bps) strategies both detracted from returns over the month.

Performance

	One month	Three months	One year	Three years (p.a.)	Five years (p.a.)	Ten years (p.a.)
Wholesale[1]	-0.15%	-0.10%	9.79%	5.18%	5.36%	6.53%
Benchmark[2]	-0.24%	-0.64%	7.48%	4.42%	4.70%	6.07%
Retail[3]	-0.22%	-0.28%	8.78%	4.22%	4.33%	

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.

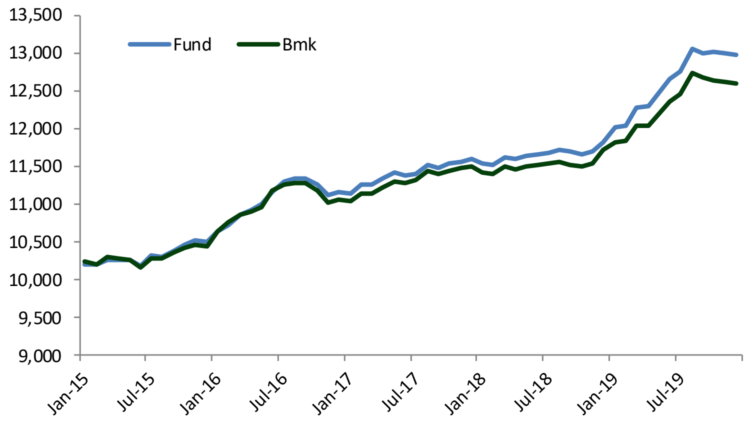
Overview

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.

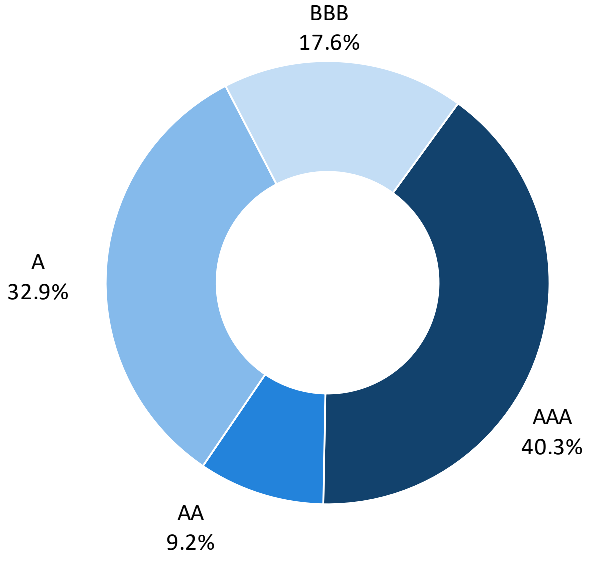
Objective

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	32.76%	48.88%
Agency	4.92%	8.09%
Collateralised & MBS	37.85%	12.06%
Credit	27.78%	21.00%
Emerging market debt	5.81%	9.97%
Cash, derivatives, other	-9.12%	0.00%

Duration
Fund 7.82 years vs Benchmark 7.03 years

Yield to Maturity
Fund (gross) 1.99% vs Benchmark 1.69%

Market Commentary (source: GSAM)

Government bond yields rose in late-December on reduced political tail risks following a US-China détente and a decisive victory for the Conservative party in the UK general election. In Sweden, the Riksbank ended five years of negative interest rates by raising its policy rate by 25 basis points (bps) to 0%. The Bank of Japan (BoJ) kept monetary policy unchanged, as widely expected. The Bank of England (BoE) also left rates unchanged and asserted that it was too early to gauge whether the results of the December general election would reduce policy uncertainty and revive domestic demand. 2019 was characterized by elevated political uncertainty, moderating macroeconomic data and proactive monetary accommodation. This sponsored a rally in global rates and an outperformance of spread sectors. We believe we are entering a period of central bank inaction and expect rates to remain range-bound in the near-term. The Bloomberg Barclays US Mortgage Backed Securities (MBS) Index returned 0.28% in December and 6.35% in 2019. Agency MBS outperformed US Treasuries in December due to a supportive macro rate environment and lower supply. The yield on 10-year US Treasuries closed at the highest level in five months as the prospect of a "Phase One" US-China trade deal bolstered risk sentiment. The dollar roll market— which acts as a financing market for To Be Announced (TBA) mortgages—traded at stressed levels in mid-December due to year-end balance sheet constraints.

Fund Commentary (source: GSAM)

The portfolio outperformed benchmark. Positive performance was driven by our Corporate Selection and Cross- Sector strategies whilst Securitized Selection strategy and Country strategies detracted from returns over the month. We are overweight Japanese rates as we continue to expect the market to rebuild expectations for monetary easing as growth remains lackluster. We are broadly neutral other developed market (DM) rates. We expect US Federal Reserve (Fed) policy to be guided by incoming data and trade developments. In Europe, we expect interest rate volatility to moderate from current levels. We are overweight the Media (Cable and Non-Cable) sector due to robust fundamentals (high deleveraging capacity) and sector-specific trends (rising demand for data). We are also overweight Consumer Cyclicals such as Chemicals and Autos following an improvement in manufacturing data and de-escalation in US-China trade tensions. We remain underweight Energy despite sector outperformance in December; the sector faces funding challenges, is exposed to volatile geopolitics and exhibits operational underperformance. We believe that liability management will be a key focus for companies in 2020. As such, we are focused on selecting credits with attractive assets and financial flexibility. We are also underweight Transportation which faces headwinds from an evolving trend of de-globalization. We maintain a down-in-quality bias, as reflected by overweight exposure to B-rated bonds—which exhibit less extended valuations—relative to BB-rated bonds. We remain overweight Agency MBS due to attractive valuations and our expectation for supportive supply-demand dynamics, as well as the benign macro backdrop. US bank demand tends to be robust at the start of the year, while new supply moderates during the winter months. Our preference is for wing coupon Mortgage Back Securities (MBS) versus current coupon MBS; the former has a better convexity and carry profile. We continue to be overweight Ginnie Mae MBS versus conventional MBS due to strong bank and overseas demand in lower coupon Ginnie Mae MBS, and the improving carry profile in higher coupon Ginnie Mae MBS.

Key Fund Facts

Distributions

Wholesale fund: Calendar quarter
Retail fund: Calendar quarter

Estimated annual fund charges (incl. 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

$329.4.m

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