Nikko Asset Management

Factsheet 31 January 2020

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)

- 2020 commenced with improving macroeconomic data but heightened geopolitical uncertainty amid US-Iran tensions. Risk sentiment was challenged in the second half of the month by concerns around downside China and global growth risks that may arise due to the novel coronavirus outbreak. Global rates rallied despite monetary policy inaction.

Fund Highlights

- The portfolio outperformed its benchmark in January.
- Cross Sector, Securitised and Country Selection strategies were the largest contributors to outperformance.
- Duration strategy underperformed driven by the fund's tactical underweight US rates positions that were impacted by the risk-off rates rally in January.

Performance

	One month	Three months	One year	Three years (p.a.)	Five years (p.a.)	Ten years (p.a.)
Wholesale[1]	2.03%	1.84%	10.23%	5.92%	5.39%	6.59%
Benchmark[2]	1.83%	1.42%	8.39%	5.13%	4.60%	6.12%
Retail[3]	1.70%	1.81%	9.39%	4.88%	4.36%	

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.

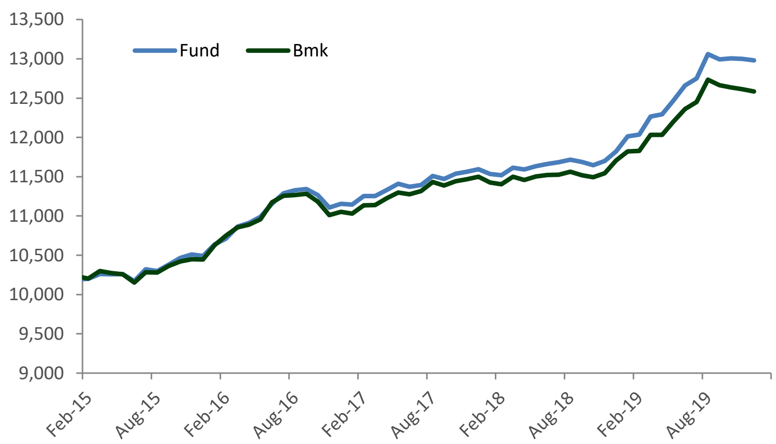
Overview

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.

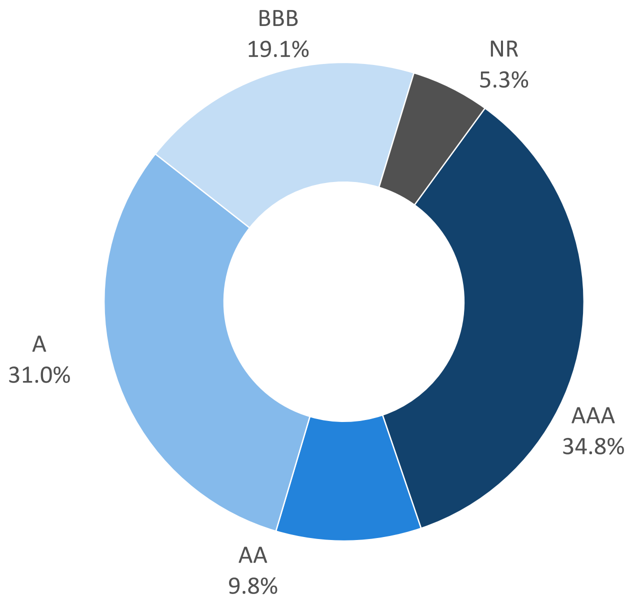
Objective

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	33.76%	48.85%
Agency	5.44%	8.09%
Collateralised & MBS	35.10%	11.93%
Credit	30.55%	20.91%
Emerging market debt	7.33%	10.22%
Cash, derivatives, other	-12.18%	0.00%

Duration
Fund 7.22 years vs Benchmark 7.10 years

Yield to Maturity
Fund (gross) 1.97% vs Benchmark 1.57%

Market Commentary (source: GSAM)

2020 commenced with improving macroeconomic data but heightened geopolitical uncertainty amid US-Iran tensions. Risk sentiment was challenged in the second half of the month by concerns around downside China and global growth risks that may arise due to the novel coronavirus outbreak. Global rates rallied despite monetary policy inaction.

The Fed and the Bank of England (BoE) left policy rates unchanged in January. The Fed meeting was more about technicals than fundamentals given domestic economic conditions were little changed since the December meeting, trade tail risks lessened, and financial conditions eased. US and European rate volatility has been contained, in part due to muted market-implied pricing for policy rate changes in 2020. Central banks in the Eurozone, Norway, and Japan also kept policy unchanged. Despite monetary policy inaction, global government bonds rallied through January due to uncertainty about the impact of the coronavirus outbreak on global growth.

The Bloomberg Barclays US Mortgage Backed Securities (MBS) Index returned 0.70% in January. Agency MBS underperformed US Treasuries which rallied amid risk-off market sentiment. Investment grade (IG) corporate credit weakened modestly in January as spreads on the Bloomberg Barclays Global Aggregate Corporate Index widened 5 basis points (bps) to 103bps over sovereigns. Risk sentiment was challenged by weak oil prices and concern about whether the emergent global growth recovery will be able to withstand slower Chinese growth stemming from the coronavirus outbreak.

Fund Commentary (source: GSAM)

The portfolio outperformed its benchmark in January driven by our Cross Sector & Securitised selection, whilst our Duration strategy underperformed. Our Cross Sector strategy was the largest contributor, driven by our paired trade where we are overweight spread sector, particularly Investment Grade Corporates and overweight US rates.

Our Duration strategy however underperformed driven by our tactical underweight US rates positions that were impacted by the risk-off rates rally in January. We expect the Fed funds rate to remain unchanged in 2020. We also expect unchanged policy rates in Europe for the foreseeable future due to low inflation outcomes and weak inflation expectations.

We reduced our overweight exposure to agency MBS over the month as we think they look less attractive at current valuations.
We remain moderately overweight Investment Grade Corporate and focused on carry and roll opportunities arising from curve steepness rather than positioning for significant spread movements. We are overweight intermediate-maturity bonds and underweight longer-dated debt, particularly in the US and moderately overweight High Yield, as we think the asset class will benefit from continued investor demand for yield, global growth stabilization and stable corporate fundamentals.

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

$337.9m

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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