Factsheet 31 March 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)

- In March, liquidity challenges in the bond market became another component of the current market volatility, adding to existing investor concerns about the economic impact of the coronavirus. The US Federal Reserve (Fed) lowered its policy rate by a total of 150bps to 0.00-0.25%, and further announced plans to conduct open-ended QE and expanded its asset purchases.
- The Bloomberg Barclays US Mortgage Backed Securities (MBS) Index returned 1.06% in March, underperforming duration neutral US Treasuries.
- Quantitative easing (QE) has resumed in the US, UK, and Sweden, expanded in Europe and Japan, and commenced for the first time in Australia, Canada, and New Zealand. Central bank easing has been accompanied by broad-based and well-targeted fiscal support.

Fund Highlights

- The portfolio underperformed its benchmark over the quarter.
- Duration (26bps), Govt/Swaps (15bps) and Country (13bps) strategies were the largest contributors in March.
- Cross sector (-115bps), Corporate (-90bps) and Securitised (-28bps) strategies detracted from performance.

Performance

	One month	Three months	One year	Three years (p.a.)	Five years (p.a.)	Ten years (p.a.)
Wholesale[1]	-3.82%	-0.77%	5.01%	4.61%	4.65%	6.14%
Benchmark[2]	-1.67%	1.37%	6.02%	4.62%	4.38%	5.96%
Retail[3]	-3.12%	-0.67%	4.48%	3.72%	3.73%	

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.

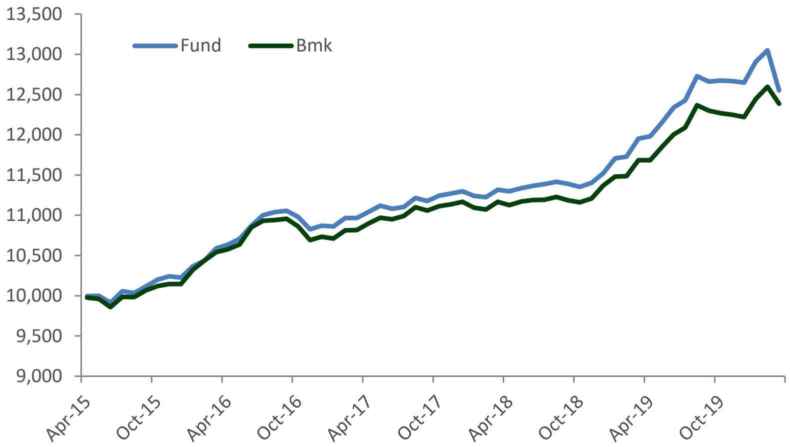
Overview

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.

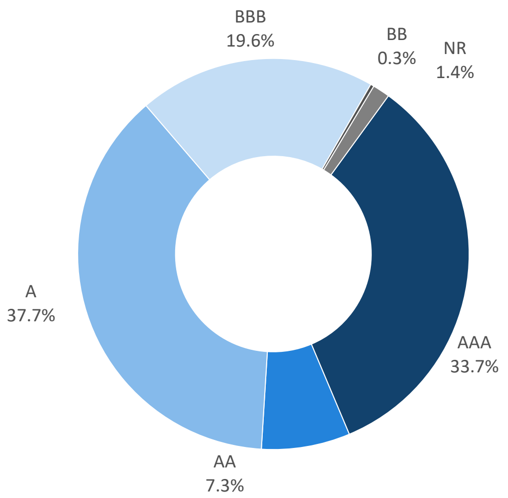
Objective

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	22.84%	49.41%
Agency	2.09%	8.09%
Collateralised & MBS	44.57%	12.00%
Credit	35.06%	19.94%
Emerging market debt	8.78%	10.56%
Cash, derivatives, other	-13.25%	0.00%

Duration
Fund 6.76 years vs Benchmark 6.96 years

Yield to Maturity
Fund (gross) 2.81% vs Benchmark 1.04%

Market Commentary (source: GSAM)

In March, liquidity challenges in the bond market became another component of the current market volatility, adding to existing investor concerns about the economic impact of the coronavirus and the plunge in oil prices. Central banks have been proactive in their efforts to ease liquidity stresses and there are signs that these easing measures are working. That said, risk sentiment remains volatile and sensitive to virus news flow. The policymaker response to the coronavirus pandemic in March was fast and bold with every G10 central bank policy rate—with the exception of Sweden—at an all-time low. Quantitative easing (QE) has resumed in the US, UK, and Sweden, expanded in Europe and Japan, and commenced for the first time in Australia, Canada, and New Zealand. Central bank easing has been accompanied by broad-based and well-targeted fiscal support. The goal of recent policy measures is three-fold: limit job and income losses, support growth once the recovery takes hold, and support smooth market functioning.

The Bloomberg Barclays US Mortgage Backed Securities (MBS) Index returned 1.06% in March, underperforming duration neutral US Treasuries. MBS spreads widened substantially early in the month as liquidity collapsed on the back of heavy new supply due to historically low mortgage rates, lack of demand from investors, as well as forced selling from money managers, mortgage REITs, and hedge funds. In an effort to support the market, the Fed announced a new round of opened-ended QE on agency MBS, and has purchased around $300bn in agency MBS since mid-March. This massive infusion of liquidity has helped ease market conditions. As a result, valuations on new issue MBS have returned to February levels and liquidations from levered investors such as hedge funds and mortgage REITs have started to slow. Securitised credit markets have also been under siege given selling pressure alongside growing concerns about the weakening economic outlook and the potential impact on consumers and businesses. While spreads on senior cash flows have tightened due to supportive monetary and fiscal policies, mezzanine and junior bonds have yet to find their footing.

Fund Commentary (source: GSAM)

The portfolio underperformed its benchmark over the quarter and all of this occurred in the month of March. Key positive contributors to performance over March were Duration (26 basis points), Govt/Swaps (15bps) and Country allocation (13bps). Detractors from performance were Cross Sector allocation (-115bps), Corporate (-90bps) and Securitised (-28bps) strategies.

Our Cross Sector and Corporate strategies returns were driven by our overweight bias to investment grade (IG) corporates. March saw spreads on corporates widen 143bps to 266bps over sovereigns. The investment grade market deteriorated due to the twin oil and coronavirus shock, as investor uncertainty, reduced bank dealer capacity to trade and near-term funding concerns impaired credit market functioning and the asset class saw heavy outflows.

Decisive action from major central banks, particularly IG corporate asset purchases announced by the US Federal Reserve on 24 March 2020, started to ease liquidity challenges and helped spreads to start retracing towards the end of the month. Our rates-paired approach offset some of the losses from the spread-widening. We remain overweight but are also conscious of the potential for elevated and elongated coronavirus and economic uncertainty which in turn could impact the outlook for corporate fundamentals more materially.

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	Strategy size	Strategy Launch
0.00% / 0.00%	$327.0m	October 2008

Exclusions: Investments in tobacco manufacturers and 'controversial weapons'.

Compliance

The Fund complied with its investment mandate and trust deed during the month.

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