Factsheet 30 April 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 April, interest rate volatility subsided but financial markets continued to experience periods of volatility based on economic developments and virus-related headlines. Central banks have been proactive in their efforts to ease liquidity stresses and there are signs that these easing measures are working their way into markets with capital markets opening up again as evidenced by the surge in new issuance in both investment grade and high yield credit markets.
- Supportive central bank policies have partially reversed some of the credit spread widening experienced in March.

Fund Highlights

- The portfolio returned 3.7% in April, 214bps ahead of its benchmark.
- Cross-Sector (136bps), Corporate (50bps) and Securitised (17bps) were the largest contributors in April, while Govt/Swaps (-2bps) 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]	3.73%	0.88%	8.68%	5.65%	5.43%	6.44%
Benchmark[2]	1.59%	1.13%	7.70%	4.91%	4.75%	6.05%
Retail[3]	3.10%	0.70%	7.58%	4.61%	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.

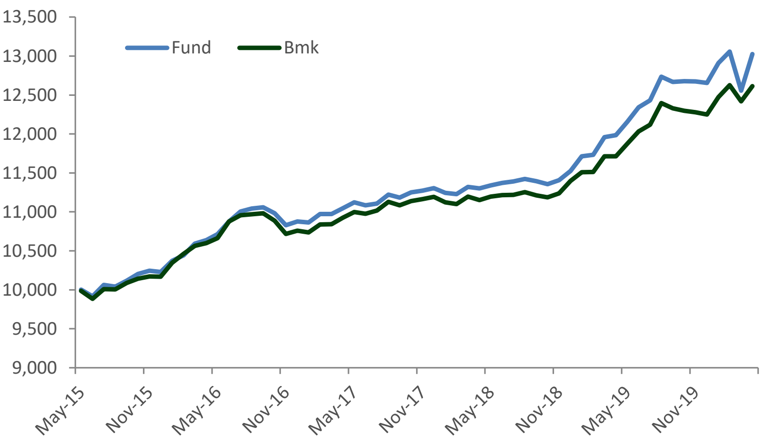
Overview

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.

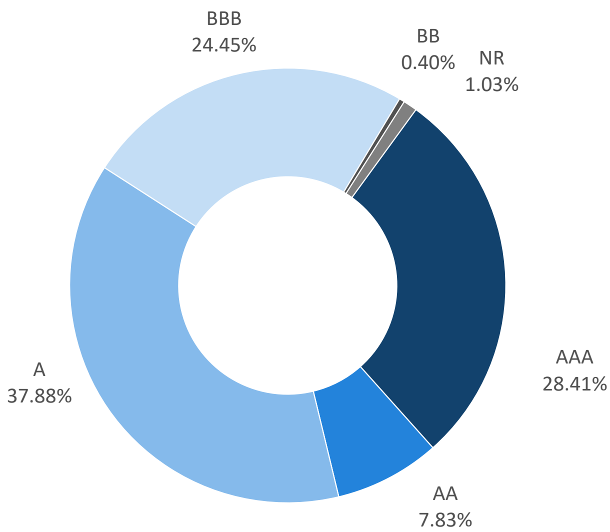
Objective

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	17.72%	48.21%
Agency	1.95%	8.27%
Collateralised & MBS	40.88%	11.91%
Credit	45.74%	20.72%
Emerging market debt	7.84%	10.89%
Cash, derivatives, other	-14.13	0.00%

Duration
Fund 7.10 years vs Benchmark 7.14 years

Yield to Maturity
Fund (gross) 2.65% vs Benchmark 1.07%

Market Commentary (source: GSAM)

In April, interest rate volatility subsided but financial markets continued to experience periods of volatility based on economic developments and virus-related headlines. Central banks have been proactive in their efforts to ease liquidity stresses and there are signs that these easing measures are working their way into markets with capital markets opening up again as evidenced by the surge in new issuance in both investment grade and high yield credit markets.

Central banks have indicated they will do whatever it takes to support smooth market functioning. Both the US Federal Reserve (Fed) and the European Central Bank (ECB) expanded their quantitative easing (QE) programs to include recent fallen angels. Supportive central bank policies have partially reversed some of the credit spread widening experienced in March.

The Fed increased the size and scope of its asset purchase programs at the beginning of the month. With the expansion of the Fed's corporate credit facilities, they started to taper its US Treasury purchases. The April Federal Open Market Committee (FOMC) meeting was largely uneventful but policymakers signalled that they stand ready to do more if needed. The US economy contracted 4.8% in the first quarter, bringing the longest expansion on record to an abrupt end. Additionally, the US economy shed 20.5mn jobs in April as the coronavirus erased 10 years of job growth in a single month.

In Europe, the ECB kept its policy rate and parameters of Pandemic Emergency Purchase Program (PEPP) unchanged, and instead focused on improving liquidity conditions. In the UK, the UK Debt Management Office (DMO) announced it will substantially raise monthly gilt supply from May until July in order to facilitate fiscal spending and the Bank of England (BoE) front-loaded its £200bn QE program. Increased gilt issuance and BoE buying continue to dominate gilt markets and have led to flattening of the gilt curve. Elsewhere, the Bank of Japan (BoJ) expanded its QE efforts and removed the ¥800tn limit attached to its Japanese government bond buying program.

The Bloomberg Barclays US Mortgage Backed Securities (MBS) Index returned 0.64% in April, outperforming duration neutral US Treasuries. The sharp decline in rate volatility, a slowdown in mortgage origination, and steady Fed purchases supported agency MBS performance. Investment grade corporates rallied over April as spreads on the Bloomberg Barclays Global Aggregate Corporate Index tightened 61bps to 205bps over sovereigns. The investment grade market strengthened on continued signs of market support from major central banks, which has helped to significantly improve liquidity conditions. Regionally, the US outperformed other developed markets as this region saw the most direct benefits from the Fed's inclusion of corporate credit in its asset purchases.

Fund Commentary (source: GSAM)

The portfolio returned 3.7% in April, 214bps ahead of its benchmark. We increased overweight exposure to the agency MBS sector during the month. We've seen a decrease in mortgage origination and refinance expectations as nationwide social distancing efforts continue, unemployment rises, and forbearance usage increases. We remain overweight and see value in holding investment grade credit. Looking ahead, we believe spreads offer attractive compensation for recession and downgrade risk. We are also conscious of the uncertainty around the economic impact of the coronavirus and the duration of lockdowns, which could impact the outlook for corporate fundamentals. However, if monetary and fiscal policy can successfully address systemic risks, we believe current spreads provide attractive yields versus government bonds and potential for spread tightening. We remain overweight high yield corporates as we believe unprecedented and aggressive stimulus provided by the central banks will help provide stability to credit markets thereby improving liquidity for corporate issuers across the quality spectrum. We believe that the asset class stands to benefit from lower rates globally as the search for yield will drive investors down the credit quality spectrum.

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%	$334.1m	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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