Factsheet 30 June 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)

- Renewed coronavirus case growth in the US and various other advanced economies led to risk-off sentiment at the start of June. Meanwhile, survey and activity data rebounded from record low levels as economies moved beyond peak lockdowns in April from May onwards. Improving data alongside accommodative policy supported risk assets despite continued virus uncertainty.
- In June, the European Central Bank (ECB) expanded and extended its quantitative easing (QE) program, while the US Federal Reserve (Fed) removed a requirement for issuers to opt-in to its Secondary Market Corporate Credit Facility (SMCCF).

Fund Highlights

- The portfolio returned 6.4% over the quarter, 4.0% ahead of its benchmark.
- Cross-Sector (278bps), Corporate (89bps) and Duration (24bps) were the largest contributors over the quarter, while Govt/Swaps (-5bps) and Securitised (-2bps) strategies and detracted from performance.

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

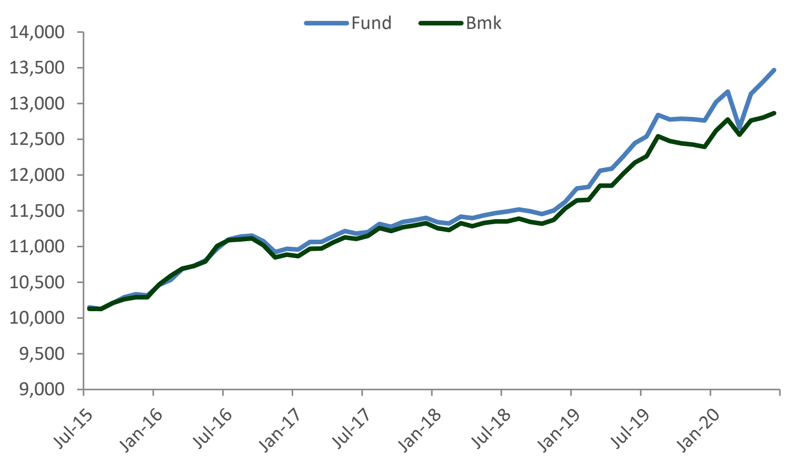
The Strategy aims to outperform the benchmark return by 1% per annum before fees, expenses and taxes over a rolling three year period.

Performance

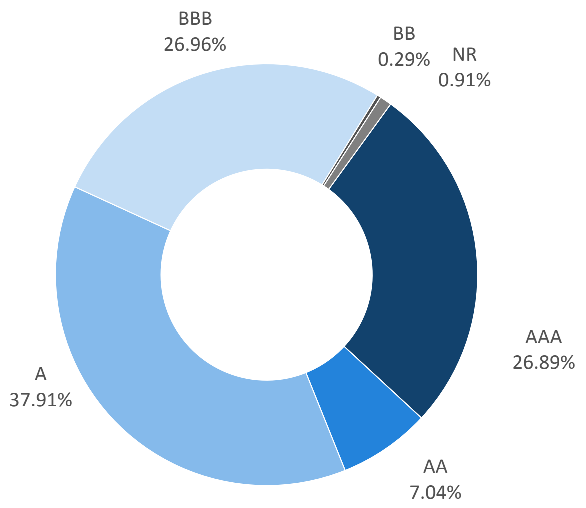
	One month	Three months	One year	Three years (p.a.)	Five years (p.a.)	Ten years (p.a.)
Wholesale[1]	1.30%	6.36%	8.21%	6.41%	6.14%	6.46%
Benchmark[2]	0.50%	2.40%	5.69%	5.03%	5.17%	5.91%
Retail[3]	1.42%	5.74%	7.41%	5.33%	5.12%	

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.

Five Year Cumulative Performance, $10,000 invested[1, 2]



Credit Quality



Sector Allocation (% of fund)	Fund	Index
Governments	19.80%	47.23%
Agency	2.27%	8.26%
Collateralised & MBS	37.70%	11.64%
Credit	45.87%	21.28%
Emerging market debt	7.52%	11.59%
Cash, derivatives, other	-13.16%	0.00%

Duration
Fund 7.39 years vs Benchmark 7.19 years

Yield to Maturity
Fund (gross) 2.24% vs Benchmark 1.07%

Market Commentary (source: GSAM)

Renewed coronavirus case growth in the US and various other advanced economies led to risk-off sentiment at the start of June. Meanwhile, survey and activity data rebounded from record low levels as economies moved beyond peak lockdowns in April from May onwards. Improving data alongside accommodative policy supported risk assets despite continued virus uncertainty.

In June, the European Central Bank (ECB) expanded and extended its quantitative easing (QE) program, while the US Federal Reserve (Fed) removed a requirement for issuers to “opt-in” to its Secondary Market Corporate Credit Facility (SMCCF). We think this demonstrates the Fed’s willingness and ability to adapt depending on market conditions. The sell-off in rates early in the month was quickly reversed and rates ended the month little changed. In the US, the 7- to 10-year part of the yield curve led the rally, retracing around a half of the curve steepening observed in May. At the June Federal Open Market Committee (FOMC) meeting, the Fed left its policy rate and forward guidance unchanged. The Fed provided more clarity on the pace of its Treasury and MBS purchases indicating that it will increase its holdings at “at least the current pace” over the coming months in order to sustain smooth market functioning. Agency MBS delivered strong performance in the first half of the month as demand from US banks and overseas investors supported the sector. The outperformance retraced somewhat in the second half of the month due to heavy To-Be-Announced (TBA) supply. TBA origination increased in June amid a rebound in housing activity and high refinancing activity. Investment grade corporates rallied in June as spreads tightened. The market strengthened on continued improvement in economic activity, further market support from major central banks, fund inflows, and a slowdown in new issuance in the second half of the month. However, sentiment was tempered by ongoing concerns of a second wave of the virus evidenced by an uptick in virus cases. Regionally, the US outperformed other developed markets as the Fed shifted from a role of lender of last resort to an active secondary market participant. Following two months of strong returns, the pace of recovery in the US high yield market moderated in June as concerns of a second wave of the virus and the potential pause or reversal in reopening plans weighed on the risk sentiment. Record monthly new issuance in June also contributed to muted returns. All but four of the 21 sectors in the index posted positive returns in June. Transportation (+6.49%), Retail (+3.08%), and Autos (+2.81%) were the best performing sectors, while Broadcasting (-1.58%), Food/Beverages (-0.69%), and Healthcare (-0.40%) lagged. In securitised credit markets, mezzanine tranches of collateralized loan obligations (CLOs) and credit risk transfer securities (CRTs) have largely kept pace with the spread tightening we have seen in high yield, while mezzanine tranches of commercial MBS (CMBS) have lagged. Some asset-backed securities (ABS) sectors have completely retraced the widening seen during this crisis, such as prime auto and credit card ABS.

Fund Commentary (source: GSAM)

The portfolio returned 6.4% over the quarter, 4.0% ahead of its benchmark. The largest positive contributors to performance over the quarter were Cross Sector (+278bps), Corporate (+89bps) and Duration (+24bps) strategies. Detractors from performance were Govt/Swap (-5bps) and Securitised (-2bps) strategies.

Virus and macro paths are still subject to considerable uncertainty but the policy backdrop remains accommodative. As such, we remain overweight assets that benefit from central bank purchases including Agency MBS and corporate credit. That said, virus, economic, and political uncertainty requires selective and diversified exposures.

Key Fund Facts

Distributions

Wholesale fund: Calendar quarter
Retail fund: Calendar quarter

Hedging

All investments will be hedged to New Zealand dollars within an operational range of 98.5% - 101.5%.

Estimated annual fund charges (incl. GST)

Wholesale: Negotiated outside of unit price
Retail: 0.84%, refer PDS for more details

Buy / Sell spread	Strategy size	Strategy Launch
0.00% / 0.00%	$348.3m	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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