

Factsheet 31 July 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)

- Risk assets were supported by accommodative monetary policies, agreement on an EU Recovery Fund, stronger-than-expected second quarter earnings, and progress on COVID-19 vaccine development.
- Global yields continued to fall in July as weak economic data added to fears that the economic recovery may be slowing. Central banks left policy rates unchanged and continued to paint a wary picture of the economy, reiterating their commitment to support the recovery with accommodative policy.

Fund Highlights

- The portfolio returned 1.8% in July, 71bps ahead of its benchmark.
- Cross-Sector (60bps), Country (5bps) and Duration strategies were the largest contributors in July, while Emerging Markets (-4bps) and Govt/Swaps (-1bps) strategies detracted from performance.

Performance

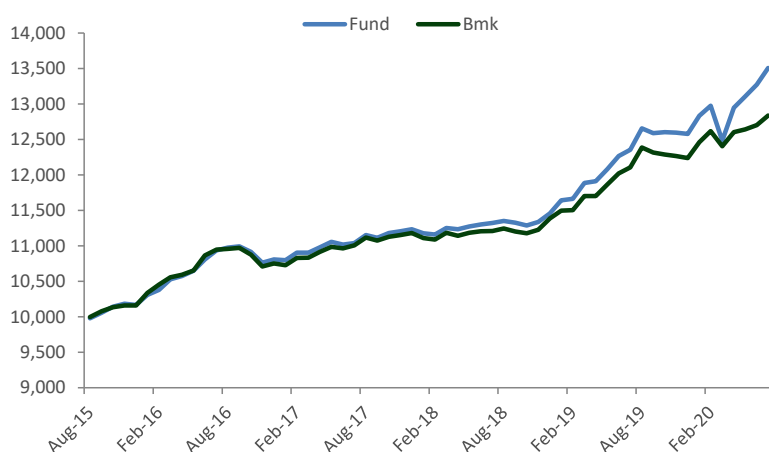
	One month	Three months	One year	Three years (p.a.)	Five years (p.a.)	Ten years (p.a.)
Wholesale ¹	1.76%	4.34%	9.33%	6.96%	6.20%	6.53%
Benchmark ²	1.05%	1.86%	6.03%	5.26%	5.12%	5.91%
Retail ³	1.69%	4.29%	8.55%	5.94%	5.21%	

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}



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.

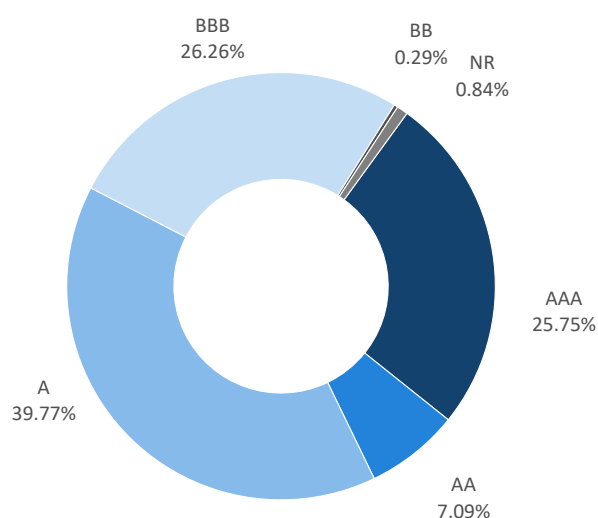
Overview

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.

Credit Quality



Sector Allocation (% of fund)	Fund	Index
Governments	26.50%	47.45%
Agency	0.64%	8.32%
Collateralised & MBS	33.00%	11.22%
Credit	42.99%	21.33%
Emerging market debt	7.27%	11.68%
Cash, derivatives, other	-10.40%	0.00%

Duration
Fund 7.26 years vs Benchmark 7.45 years

Yield to Maturity
Fund (gross) 1.74% vs Benchmark 0.97%

Market Commentary (source: GSAM)

Developed market interest rate volatility remains low amid unchanged policy rate expectations for the foreseeable future. The US Federal Reserve (Fed) kept policy and forward guidance unchanged at its July meeting as it awaits details on further fiscal stimulus and the path for the virus. If changes are required in September, these could include an adjustment to forward guidance on rate policy, or changes in the composition of asset purchases to extend the duration of their Treasury purchases.

Risk assets were supported by accommodative monetary policies, agreement on an EU Recovery Fund, stronger-than-expected second quarter earnings, and progress on COVID-19 vaccine development. That said, episodes of risk-off sentiment returned on headlines about rising virus cases, rising US-China tensions, and limited progress on a fourth US fiscal stimulus package. As a result, the 10-year US Treasury yield fell to an all-time low, gold prices continue to reach new highs, and the US dollar experienced its worst monthly decline in a decade.

Rising virus cases in the US continue to threaten reopening progress and the economic recovery, leading investors to turn to safe-haven assets. Global yields continued to fall in July as weak economic data added to fears that the economic recovery may be slowing. Central banks left policy rates unchanged and continued to paint a wary picture of the economy, reiterating their commitment to support the recovery with accommodative policy. Fiscal policy was in focus last month, with EU leaders reaching an agreement on the €750bn Recovery Fund and Phase 4 US fiscal negotiations commencing during the final week of the month.

Investment grade corporates rallied in July as spreads on the Bloomberg Barclays Global Aggregate Corporate Index tightened 19bps to 137bps over sovereigns. Europe outperformed other developed markets as spreads on the Bloomberg Barclays Euro Aggregate Corporate tightened by 21bps to end at 128bps over sovereigns, with the July agreement on the EU Recovery Fund further improving the supportive macro backdrop for European corporate issuers.

The Bloomberg Barclays US Mortgage Backed Securities (MBS) Index returned 0.18% in July, outperforming similar duration US Treasuries. Strong real money demand along with reinvestment needs from the Fed and US banks supported Agency MBS performance. The Fed plans to reinvest \$70bn in paydowns through mid-August on top of their \$40bn in monthly net purchases, while US banks are likely to add another \$80bn in reinvestment needs. Primary mortgage rates (the rate homebuyers pay) have moved lower since April, leading to compression in the spread between primary and secondary mortgage rates.

Fund Commentary (source: GSAM)

The portfolio returned 1.8% in July, 71bps ahead of its benchmark. The largest positive contributors to performance over the month were Cross-Sector (+60bps), Country (+5bps) and Duration (+4bps) strategies. Detractors from performance were Emerging Markets (-4bps) and Govt/Swaps (-1bps) 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 in both the US and Europe. That said, we believe virus, economic, and political uncertainties require selective and diversified exposures.

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: 0.84%, 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

\$357.2m

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.

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