Nikko Asset Management

Factsheet 30 September 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)

- Following a plunge in global growth in the second quarter, a relaxation of virus containment measures alongside policy support helped the global economy sprint forward in the third quarter.
- September saw the return of risk-off sentiment following the tremendous rebound in financial markets since the March lows as some of the factors that supported the recovery started to fade. Renewed COVID-19 case growth in Europe and reduced prospects of further US fiscal support this year alongside rising political uncertainty as we head into the US elections all contributed to increased market volatility and risk aversion.

Fund Highlights

- The fund returned 0.25% in September to finish the quarter 100bps ahead of its benchmark.
- The largest positive contributors to performance over the quarter were the fund's Securitised (+60bps) and Cross-sector strategies (61bps). The fund's Government/Swaps strategy (-41bps) were the largest detractors from value.

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

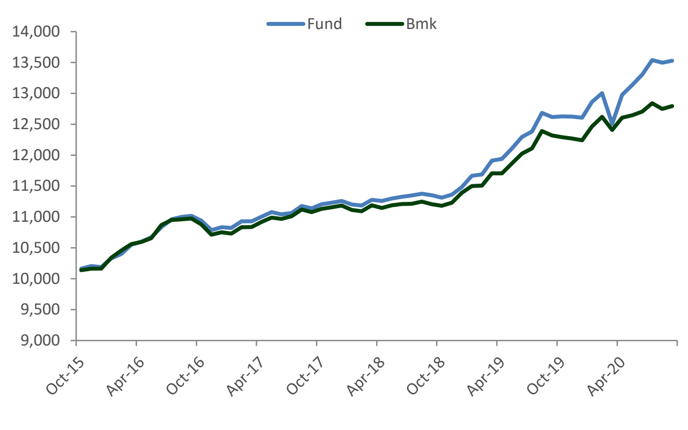
The Strategy aims to outperform the benchmark return by 1% per annum before fees, expenses and taxes over a rolling three year period.

Performance

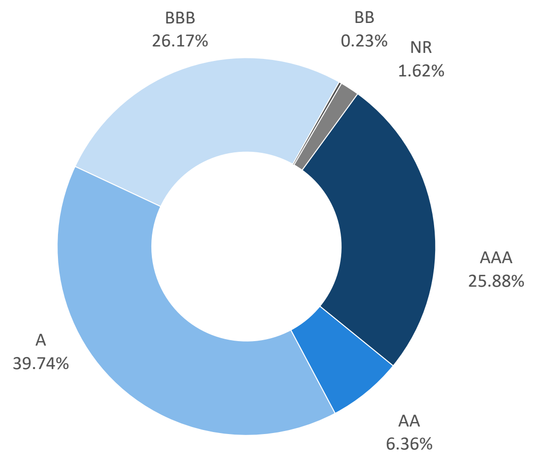
	One month	Three months	One year	Three years (p.a.)	Five years (p.a.)	Ten years (p.a.)
Wholesale[1]	0.25%	1.70%	7.22%	6.70%	6.07%	6.24%
Benchmark[2]	0.38%	0.70%	3.86%	4.93%	4.88%	5.67%
Retail[3]	0.30%	1.51%	6.31%	5.74%	5.04%	

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	27.64%	46.97%
Agency	0.61%	8.29%
Collateralised & MBS	33.57%	11.20%
Credit	42.49%	20.84%
Emerging market debt	7.95%	12.70%
Cash, derivatives, other	-12.26%	0.00%

Duration
Fund 7.01 years vs Benchmark 7.25 years

Yield to Maturity
Fund (gross) 1.93% vs Benchmark 1.03%

Market Commentary (source: GSAM)

Following a plunge in global growth in the second quarter, a relaxation of virus containment measures alongside policy support helped the global economy sprint forward in the third quarter. Global growth is expected to have grown at a more than 30% annualized pace between July and September. This would be the strongest single quarter expansion on record. However, even with this remarkable bounce, global GDP will still be 4% below its end-2019 level. The recovery will remain incomplete until services sector activity normalises. September saw the return of risk-off sentiment following the tremendous rebound in financial markets since the March lows as some of the factors that supported the recovery started to fade. Renewed case growth in Europe and reduced prospects of further US fiscal support this year alongside rising political uncertainty as we head into the US elections all contributed to increased market volatility and risk aversion. In the near term, the US election and vaccine announcements have potential to generate market volatility. Once we move past the election and the trajectory of the coronavirus becomes clearer, we believe policy measures will address severe market dislocations and keep left (losses) tail risks in check. With a “search for liquidity” paving way for a “search for yield,” we are overweight Agency mortgage-backed securities (MBS) and corporate credit in both the US and Europe.

Fund Commentary (source: GSAM)

The fund returned 0.25% in September, and finished the quarter 100bps ahead of its benchmark. The largest positive contributors to performance over the quarter were the allocation to Cross-sector strategies (61bps) and stock selection within the fund’s Securitised strategy (+60bps). The fund’s Government/Swaps strategy (-41bps) was the largest detractor from value.

We expect Agency MBS will be supported by a combination of bank demand, elevated Fed purchases, and a slowdown in supply as we enter the winter months. We remain overweight the sector but have used strong month-end performance as an opportunity to reduce exposure. Within the sector, we are underweight ‘belly’ coupon MBS as we expect primary mortgage rates to remain at low levels with the potential to drift lower. Investment grade corporate credit weakened in September; spreads on the Bloomberg Barclays Global Aggregate Corporate Index widened 6bps to 136bps over sovereigns, marking the first month of widening since March 2020. Concerns around a second wave of COVID-19 infections, reduced prospects for additional fiscal stimulus in the US, and uncertainty related to the upcoming US elections were the key drivers of the uptick in volatility and modest weakening in corporate markets. September marked the weakest monthly total return for US high yield corporate credit since the sell-off seen in March as risk-off market sentiment resurfaced leading to outflows from the asset class. We are overweight and have added exposure amid recent market weakness. We are focused on diversification and identifying companies that are able to adapt, have strong liquidity profiles, and stand to benefit from economies reopening. From a sector standpoint, we remain overweight certain industrial sectors that should benefit from reduced supply chain issues. In particular, we favour Building Materials given better cost controls, as well as positive new construction and repair and remodel trends. In addition, we like Specialty Chemicals where company profit margins are stronger than Commodity Chemicals. We remain underweight sectors that face secular challenges, such as Retail and Apparel and Energy. However, we have reduced our underweight exposure to Energy by adding exposure to fallen angels that we believe have flexibility to navigate a lower oil price environment. We remain underweight Healthcare due to idiosyncratic issues including litigation, pricing legislation, and heightened regulatory scrutiny.

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
$368.9m

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
www.nikkoam.co.nz | nzenquiries@nikkoam.com