Nikko Asset Management

Factsheet 31 October 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 October, market volatility was driven by US election developments, the outlook for fiscal stimulus, and COVID-19 headlines. Risk-off market sentiment in the latter half of the month was induced by rising virus cases in both Europe and the US, the imposition of new virus containment measures in Europe, and declining prospects of near-term US fiscal stimulus.
- More recent positive news about vaccine development has since contributed to risk-on sentiment as investors look ahead to a post-COVID world. On the back of this, yields on the 10-year US Treasury rose to levels last seen in mid-March.

Fund Highlights

- The fund returned 0.11% in October, 10bps ahead of its benchmark
- The largest positive contributors to performance over the month were the allocations to Cross-sector (9bps), Government/Swaps (6bps) and Corporate strategies. The fund's Country strategy (-10bps) was the largest detractor from value.

Performance

	One month	Three months	One year	Three years (p.a.)	Five years (p.a.)	Ten years (p.a.)
Wholesale[1]	0.11%	0.05%	7.25%	6.53%	5.91%	6.23%
Benchmark[2]	0.01%	-0.34%	4.12%	4.76%	4.77%	5.65%
Retail[3]	0.16%	-0.02%	6.90%	5.61%	4.94%	

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.

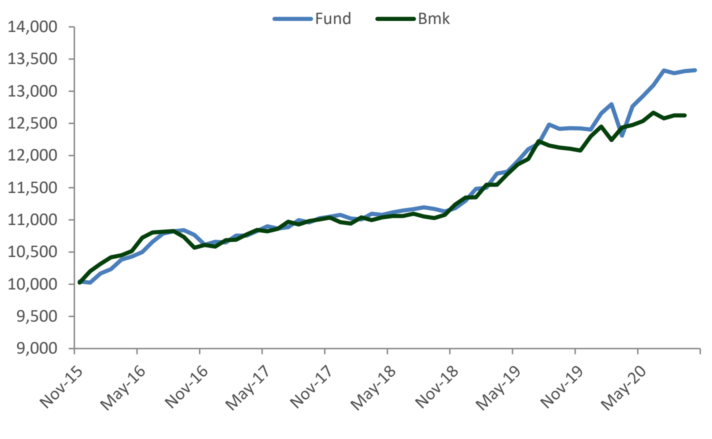
Overview

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.

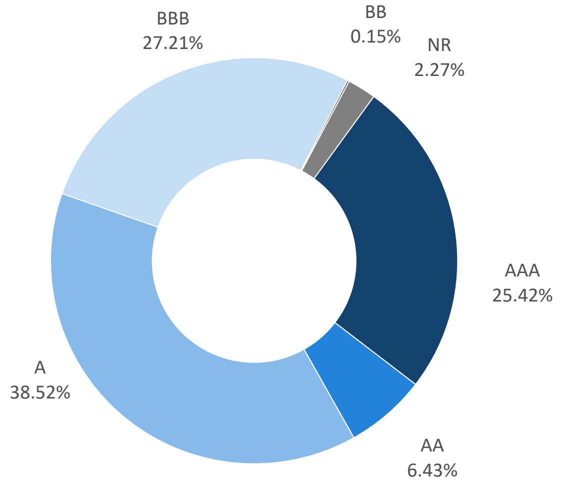
Objective

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



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Sector Allocation (% of fund)	Fund	Index
Governments	28.22%	46.83%
Agency	0.60%	8.33%
Collateralised & MBS	32.23%	11.13%
Credit	42.11%	20.58%
Emerging market debt	8.70%	13.13%
Cash, derivatives, other	-11.86%	0.00%

Duration
Fund 7.87 years vs Benchmark 7.27 years

Yield to Maturity
Fund (gross) 1.98% vs Benchmark 1.02%

Market Commentary (source: GSAM)

In October, market volatility was driven by US election developments, the outlook for fiscal stimulus, and COVID-19 headlines. Risk-off market sentiment in the latter half of the month was induced by rising virus cases in both Europe and the US, the imposition of new virus containment measures in Europe, and declining prospects of near-term US fiscal stimulus. The strength in risk asset performance following the US election can be attributed to the market realization that a divided government is the most likely outcome which reduces the likelihood of a significant change in domestic economic policy. In addition, expectations for more modest fiscal stimulus resulted in a reduction in inflation expectations and lower nominal bond yields. More recently, positive news about vaccine development has further contributed to risk-on sentiment as investors look ahead to a post-COVID world. On the back of this, yields on the 10-year US Treasury rose to levels last seen in mid-March. We remain biased to lean against any underperformance in US rates on raised market expectations for earlier US Federal Reserve (Fed) rate normalization. We are mindful of COVID-19 developments with the imposition of activity restrictions in response to rapidly rising infection rates in Europe illustrating a possible path for the US heading into the winter months.

Fund Commentary (source: GSAM)

The fund returned 0.11% in October, 10bps ahead of its benchmark. The largest positive contributors to performance over the month were the allocations to Cross-sector (9bps), Government/Swaps (6bps) and Corporate strategies. The fund's Country strategy (-10bps) was the largest detractor from value. US Treasury performance was volatile in October amid evolving pandemic news, US elections, and uncertainty around near-term fiscal stimulus. Agency MBS outperformed duration neutral US Treasuries due to strong demand from institutional investors and improved carry. Lower coupon MBS have steadily outperformed higher coupon MBS given robust demand from the Fed and US banks. Higher coupon Ginnie Mae MBS underperformed during the month due to concerns on buyout-related prepayments and broad investor de-risking ahead of the US election. While supply is higher than what we usually observe during winter months, we believe the backdrop for Agency MBS remains favorable given large reinvestment needs from US banks and the Fed, persistent roll specialness, and reasonable nominal spreads on lower coupons. Corporate markets fared well due to strong third quarter earnings reports and supportive technical factors such as lower issuance. That said, the market saw a modest increase in volatility ahead of the US election and due to concerns around second virus waves in major economies such as the UK, Europe, and US. We are overweight investment grade corporate credit as we believe spreads continue to offer relatively attractive compensation for downgrade risk. We are overweight shorter-dated and intermediate maturity bonds as we believe the former remains well supported by central bank corporate credit purchases, while the latter exhibits attractive carry and roll. Despite heightened market volatility caused by election uncertainty and rising virus cases, high yield corporate debt remained resilient during the month due to healthy investor demand.

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	Strategy size	Strategy Launch
0.00% / 0.00%	$376.3m	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

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