Factsheet 30 November 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)

- The resolution of US election event risk and encouraging efficacy news on several COVID-19 vaccines in late-stage trials boosted risk sentiment in November. An improving growth outlook due to promising vaccine progress coupled with negative real yields contributed to the impressive rally in risk assets and pro-cyclical rotation within and across assets observed recently.
- Looking ahead to 2021, central banks are likely to remain accommodative even as the economy recovers given weak inflation. We expect easy monetary policy will reinforce investor search-for-yield motives, further benefiting assets that may see inflows amid the pro-cyclical rotation.

Fund Highlights

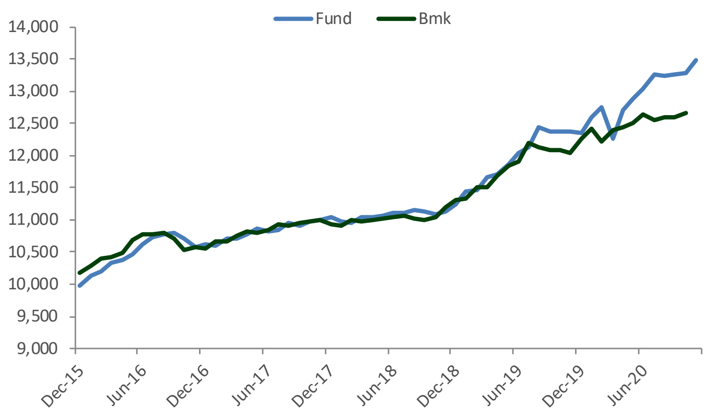
- The fund returned 1.50% in November, 96 bps ahead of its benchmark.
- The largest positive contributors to performance over the month were the allocations to Cross-sector (69bps), Corporate (14bps) and Securitised strategies (8bps).

Performance

	One month	Three months	One year	Three years (p.a.)	Five years (p.a.)	Ten years (p.a.)
Wholesale[1]	1.50%	1.87%	8.90%	6.98%	6.14%	6.48%
Benchmark[2]	0.54%	0.92%	4.85%	4.87%	4.83%	5.80%
Retail[3]	1.30%	1.77%	7.93%	6.01%	5.11%	

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.

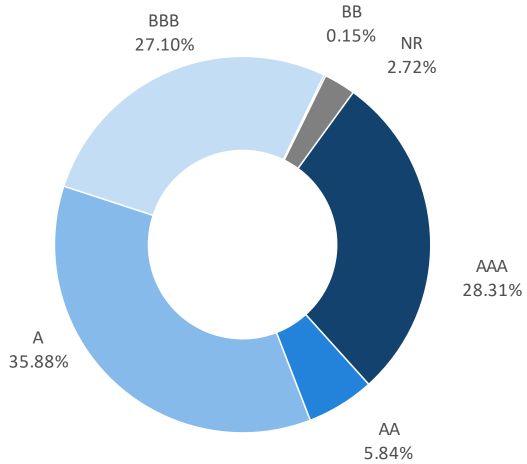
Overview

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	26.03%	46.66%
Agency	0.57%	8.45%
Collateralised & MBS	30.38%	10.94%
Credit	39.89%	20.67%
Emerging market debt	9.31%	13.28%
Cash, derivatives, other*	-6.18%	0.00%

*includes deferred settlements

Duration
Fund 8.28 years vs Benchmark 7.32 years

Yield to Maturity
Fund (gross) 1.75% vs Benchmark 0.97%

Market Commentary (source: GSAM)

The resolution of US election event risk and encouraging efficacy news on several COVID-19 vaccines in late-stage trials boosted risk sentiment in November. An improving growth outlook due to promising vaccine progress coupled with negative real yields contributed to the impressive rally in risk assets and pro-cyclical rotation within and across assets observed recently.

A resurgence of virus cases and renewed activity restrictions will likely weigh on economic growth in the near term. In the medium term, prospects of mass immunization in 2021 bode well for the economic recovery. That said, policy support will be crucial until the job-rich services sector normalizes.

Looking ahead to 2021, central banks are likely to remain accommodative even as the economy recovers given weak inflation. We expect easy monetary policy will reinforce investor search-for-yield motives, further benefiting assets that may see inflows amid the pro-cyclical rotation.

Fund Commentary (source: GSAM)

The fund returned 1.50% in October, 96 bps ahead of its benchmark. The largest positive contributors to performance over the month were the allocations to Cross-sector (69bps), Corporate (14bps) and Securitised strategies (8bps). In the US, vaccine news benefits the medium-term outlook for activity, growth, and the labour market. That said, the US Federal Reserve's (Fed) new framework puts more weight on inflation than the labour market during the recovery. The Fed left the Fed funds rate unchanged and did not make any changes to its asset purchase policy at the November central bank meeting. Chair Powell hinted that the most likely form of additional easing would be expanding the size of the quantitative easing (QE) program or elongating the maturity profile of asset purchases. The post-meeting statement noted that economic activity and employment have continued to recover but remain "well below" pre-pandemic levels. Additionally, the US Treasury made the decision to let several of the Fed's emergency credit facilities expire at year-end and requested the Fed return unused funds. Policy uncertainty around additional fiscal stimulus in the US, the Fed's emergency credit facilities, and the European Union (EU) recovery fund also weighed on the outlook. US Treasury yields edged lower last month on the back of higher-than-expected jobless claims and the US COVID-19 death toll surpassing 250k. The US Dollar Index fell to a 2-year low as risk sentiment improved. The Bloomberg Barclays US Mortgage Backed Securities (MBS) Index returned 0.07% in November. Agency MBS outperformed duration neutral US Treasuries due to continued Fed support, demand from US banks, and strong carry. We reduced our Agency MBS sector overweight on recent outperformance and spread tightening. That said, we remain constructive on the sector over the medium term due to the strong carry profile. Within the sector, we continue to favor higher coupon MBS given better prepayment protections.

Corporate credit markets fared well in November due to a resolution of US election event risk and encouraging COVID-19 vaccine developments. Spreads on the Bloomberg Barclays Global Aggregate Corporate Index tightened 21bps to 107bps over sovereigns, marking the lowest spread level year-to-date since February. Regionally, US corporates modestly underperformed due to higher supply relative to Europe and the UK. Looking ahead, we believe that search-for-yield motives, central bank buying, a slowdown in new issuance, and a vaccine-induced economic recovery will support credit markets in 2021. We are overweight investment grade credit as we believe spreads continue to offer attractive compensation for downgrade risk and carry is favourable.

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%	$388.8m	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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