nikko am
Nikko Asset Management

NIKKO AM GLOBAL BOND FUND

Monthly Fact Sheet 31 October 2016

Investment objective

The objective of the Fund is to construct a portfolio of permitted investments that outperform the Fund's benchmark return by 1.0% per annum over a rolling three year period before fees, expenses and taxes.

Benchmark

Bloomberg Barclays Global Aggregate Index, hedged into NZD

Fund description

The Fund aims to provide investors with regular income by constructing an actively managed investment portfolio of permitted investments, with the potential for capital gains from global fixed interest markets.

The Fund gains its investment exposure by investing into the Nikko AM Wholesale Global Bond Fund. The nominated global manager (Goldman Sachs Asset Management) is responsible for the investment management of the assets of the Nikko AM Wholesale Global Bond Fund.

Currency management

Foreign currency exposures created as a consequence of capital markets investment remain hedged to NZD within an operational range of 98.5% to 101.5%. Currency hedging contracts are held in the Nikko AM Wholesale Global Bond Fund.

Management fees and other charges

A management fee of 0.65% per annum calculated as a percentage of the net asset value of the Fund will be calculated and deducted from the Fund.

Nikko AM may also recover expenses (including the Trustee fee) from the Fund up to a maximum of 0.25% per annum of the Fund's net asset value. An estimate of expenses as at the time of publication is 0.20% per annum.

Buy/sell spread

Nil

Strategic asset allocation

	Target	Range
Nikko AM Wholesale Global Bond Fund	100%	95% ⇔ 100%
Cash on call for investor transactions	0%	0% ⇔ 5%

Refer to the SIPO for full details of permitted investments and restrictions.

Performance

(NZD returns; before tax, after fees and expenses)

1 month	3 months	6 months	1 year
-0.95%	-0.18%	2.50%	6.45%

2 years (pa)	3 years (pa)	5 years (pa)	Inception (pa)*
5.87%	n/a	n/a	6.54%

* December 2013

Asset allocation

Credit quality rating	Fund
AAA	26.5%
AA+, AA. AA-	11.7%
A+, A, A-	39.6%
BBB	22.0%
BB	0.2%

Sector	Fund	Index
Governments	45.6%	51.7%
Agency	5.8%	9.3%
Credit	21.6%	20.8%
Collateralised & MBS	31.4%	12.1%
Emerging market debt	4.5%	6.1%
Cash, derivatives, other	-8.9%	0.0%

Duration and yield

Duration	Fund 6.83 years versus benchmark 6.75 years
Yield to Maturity	Fund 3.47% versus benchmark 3.10%

Commentary

In the US, Donald Trump's election victory drove turbulence across global markets, but the impact has been less dramatic than GSAM expected. Stocks have rallied sharply from an initial sell off and the benchmark US 10-year yield pushed up to 2%.

The **Fund** outperformed its index over the month with most of the value added being from duration strategy and country allocation (+4bps each) followed by stock selection within the corporate sector (+3bps). Stock selection within the securitized sector detracted value (-6bps).

Over October, constructive global economic data led to a widespread sell-off in **government bonds.** In the US, the benchmark 10-year yield closed the month 24bps higher at 1.83%. The UK 10-year government bond reached its highest level since the Brexit outcome, ending the month 50 bps higher at 1.25%. In Japan, the 10-year yield increased by 4bps to -0.05%. In Europe, German 10-year yields were up by 28bps, ending the month in the positive territory at 0.16%. In European peripherals, Spanish and Italian 20-year yields rose 32bps and 49 bps respectively.

Agency **mortgage-backed** securities (MBS) modestly outperformed duration-neutral US Treasuries by 2bps in October. The sector was impacted by heighted implied interest rate volatility amid uncertainly centered on the US presidential election. GSAM believes senior collateralized loan obligations and Federal Family Education Loan Program asset backed securities offer attractive spread with strong credit protection and remain among the most compelling sectors in securitized products. GSAM are also positive on residential mortgage credit, particularly legacy non-agency MBS, which continue to benefit from negative net supply and show improving collateral performance.

Investment grade **corporate credit** strengthened over the month with spreads on the Bloomberg Barclays Global Aggregate Corporate index tightening by 6bps to 128bps over sovereigns. Spreads on Euro corporates tightened by 6bps to 109bps over sovereigns reflecting support from the ECB's corporate sector purchase programme. US corporates also strengthened, with spreads on tightening 6bps to 132bps over Treasuries.

Sterling corporates were the worst performing segment with spreads widening by 2bps to 146bps over Gilts as concerns of a 'hard Brexit' offset the positive impact of the BoE's corporate sector purchase program. The Fund is modestly overweight credit as GSAM believe the 'reach-for-yield' theme coupled with continued monetary easing in Europe, the UK and Japan, will continue to be supportive of risk assets. However, potentially expensive valuations, which in part reflect the effect of central bank asset purchase programmes, and late-stage credit cycle characteristics, leave GSAM cautious on the sector exposure, particularly with regard to US corporates where the credit cycle appears more advanced. The Fund's holdings are biased to down-in-quality bonds and a preference for the intermediate term structure. The Fund is overweight European and UK corporates, mainly as these regions continue to see support from the central banks' corporate buying programmes. GSAM sees value in the Consumer Products and Pipelines and industries, as a result of both thematic and single-security views, while underweight the Energy, Insurance and Media industries.

Compliance

The Fund complied with its investment mandate during the month.