nikko am
Nikko Asset Management

NIKKO AM GLOBAL BOND FUND

Monthly Fact Sheet 30 November 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
-1.23%	-2.03%	0.81%	4.63%

2 years (pa)	3 years (pa)	5 years (pa)	Inception (pa)*
4.78%	5.91%	n/a	5.91%

* December 2013

Asset allocation

Credit quality rating	Fund
AAA	34.1%
AA+, AA. AA-	11.3%
A+, A, A-	37.1%
BBB	17.3%
BB	0.2%

Sector	Fund	Index
Governments	36.1%	51.3%
Agency	4.9%	9.2%
Credit	21.2%	21.1%
Collateralised & MBS	32.1%	12.3%
Emerging market debt	3.7%	6.1%
Cash, derivatives, other	2.0%	0.0%

Duration and yield

Duration	Fund 7.18 years versus benchmark 6.75 years
Yield to Maturity	Fund 3.54% versus benchmark 3.18%

Commentary

Donald J. Trump claimed victory in the US presidential election, and the Republican Party secured both houses of Congress. It is not yet clear how the Trump Administration will prioritize campaign pledges or to what extent they will be implemented. Broadly speaking, policies which may stimulate domestic growth include proposed spending to bolster manufacturing and infrastructure, tax cuts and deregulation. GSAM see potentially negative implications from a strengthening dollar, rising interest rates, more volatility and restrictive trade policies that could dampen global growth. In Europe, Italians voted to reject proposed reforms to the Constitution. The outcome was expected but the margin was much larger than projected by the polls. The populist tide which has claimed victories in the UK and US this year was defied in the Austrian elections, where the Green party backed independent candidate, Alexander Van der Ballen, defeated the far-right Freedom party candidate, Nobert Hofer.

Over the month, anticipation of fiscal expansion in the US and constructive global economic data led to a sell-off in **government bonds**. In the US, the benchmark 10-year yield closed the month 53bps higher at 2.36%. The yield on the UK 10-year government bond reached a pre-Brexit level, ending the month 16 bps higher at 1.41%. In Japan, the 10-year yield increased by 7bps, ending the month in the positive territory as 0.02%. In Europe, German 10-year yields were up by 11bps, ending the month at 0.27%. In European peripherals, Spanish and Italian 10-year yields rose 35bps and 33bps, respectively. The Fund's duration strategy is neutral US, European and Japanese rates. In response to President-elect Donald Trump's fiscal stimulus plans, inflation expectations have increased, adding to the wage pressures present from a tight labour market. GSAM believe normalization of inflation expectations will encourage normalization of US Federal Reserve (Fed) policy and lead to a steeper yield curve.

Agency mortgage-backed securities (MBS) underperformed duration neutral Treasuries by 47bps in November, owing to an increase in volatility following the US election outcome. The Fund has moved to an underweight position in agency MBS. While GSAM's view was neutral to slightly positive on the sector leading up to the US presidential election, they believe the change in view is prudent given current valuations and current hedge-adjusted carry on these securities. GSAM's view is current market levels—particularly for lower coupons—do not adequately compensate investors for the post-election 50bps selloff in the 10-year US Treasury market and increase in interest rate volatility.

Within the sector, and predominantly in Ginnie Mae securities, the Fund is underweight lower coupon securities—where GSAM expect the quality of the outstanding float to continue to deteriorate—and overweight the 4% coupon. GSAM believe senior collateralized loan obligations (CLOs) and Federal Family Education Loan Program (FFELP) asset-backed securities (ABS) 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.

A rise in global sovereign yields put pressure on risk assets, including **investment grade corporates**, over the month of November. The Fund is positioned flat in investment grade credit with a bias to move to a modest overweight. Improved corporate fundamentals and positive seasonals have led GSAM to become modestly positive on the asset class. The corporate bond market may benefit from the potential for stronger growth, tax cuts and looser regulations associated with a Trump presidency. This may offset the negative headwinds of reduced global trade and tighter monetary policy. However, late-stage credit cycle characteristics and remaining uncertainty over the path of near-term US monetary policy leave GSAM cautious on the sector. In terms of the portfolio's positioning; GSAM maintain a down-in-quality bias and a preference for the intermediate part of the corporate term structure. The Fund is overweight European and Sterling corporates, mainly as these regions continue to see support from central banks' corporate buying programmes. GSAM see value in the consumer, electrics and tobacco industries, whilst underweight the media and automotive issuers.

Compliance

The Fund complied with its investment mandate during the month.