

NIKKO AM GLOBAL BOND FUND

Monthly Fact Sheet

28 February 2017



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 |
|--------------|--------------|--------------|-----------------|
| 0.99% | 0.91% | -1.14% | 4.11% |
| 2 years (pa) | 3 years (pa) | 5 years (pa) | Inception (pa)* |
| 4.00% | 5.48% | | 5.74% |

* December 2013

Asset allocation

| Credit quality rating | Fund |
|-----------------------|-------|
| AAA | 35.5% |
| AA+, AA, AA- | 19.4% |
| A+, A, A- | 33.0% |
| BBB | 11.9% |
| BB | 0.2% |

| Sector | Fund | Index |
|--------------------------|-------|-------|
| Governments | 42.7% | 51.1% |
| Agency | 4.6% | 9.3% |
| Credit | 16.6% | 21.1% |
| Collateralised & MBS | 31.8% | 12.3% |
| Emerging market debt | 2.8% | 6.2% |
| Cash, derivatives, other | 1.5% | 0.0% |

Duration and yield

| | |
|-------------------|---|
| Duration | Fund 7.01 years versus benchmark 6.77 years |
| Yield to Maturity | Fund 3.21% versus benchmark 3.03% |

Commentary

The **Fund** outperformed over the month. Value was added from country allocation (+2bps) and sector allocation (+3bps). Stock selection within the corporate bond sector and government/swaps sector added value (3bps and 2 bps respectively). Detractors from performance were stock selection within securitized assets (-3bps) and duration strategy (-2bps).

US data continued to paint a healthy economic picture over the month and February consumer confidence reached a fifteen year high. Strong US economic data and hawkish comments from US Federal Reserve (Fed) presidents raised expectations for a rate hike at the March meeting. GSAM is expecting three rate hikes this year and see increased discussion around a reduction in the Fed's holdings of agency mortgage backed securities (MBS).

The Fund is positioned for dollar strength and underweight US rates and agency MBS. Improved global growth and a recovery in commodity prices supported risk assets in February.

Agency MBS performed in line with duration-neutral US Treasuries in February. Increased demand for shorter duration assets and negative net issuance led to spread compression in agency hybrid adjustable-rate mortgages (ARMs) over the month. Agency fixed-rate MBS spreads were broadly unchanged over the month, while spreads on asset-backed securities (ABS) and collateralized loan obligations (CLOs) are near multi-year tight levels, as both sectors continue to be in demand from investors seeking high-quality and short-duration assets.

The Fund is underweight agency MBS, as GSAM expect increased interest rate volatility and elevated market concern about the Fed tapering agency MBS reinvestments to drive spreads wider.

Within the sector, and predominantly in Ginnie Mae securities, the Fund is underweight lower coupon securities—which face headwinds from reduced demand from the Fed, US commercial banks and overseas investors—and overweight higher coupons. Federal Family Education Loan Program (FFELP) 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.

Spreads tightened across US, UK and European **investment grade** markets and US high yield corporate credit posted positive total returns.

In Europe, credit spreads widened with uncertainty around the upcoming Dutch and French elections clouded marginal improvements in economic data. GSAM see potential relative-value opportunities arising from politically-driven volatility in rate and credit markets. The Fund is overweight French rates versus European investment grade credit, as GSAM expect some weakness to spill over from sovereign markets to currency and credit markets.

Performance divergence between the regions partly reflects macroeconomic differences, with improving data in the US and rising consumer confidence contrasting with growing political uncertainties weighing on investor sentiment in Europe. Spreads on the Bloomberg Barclays Sterling Corporate index remained flat at 139bps.

Disclaimer | This document is issued by Nikko Asset Management New Zealand Limited (Company No. 606057, FSP No. FSP22562), the investment manager of the Nikko AM NZ Investment Scheme and the Nikko AM NZ Wholesale Investment Scheme. This information is for the use of researchers, financial advisers and wholesale clients. This material has been prepared without taking into account a potential investor's objectives, financial situation or needs and is not intended to constitute personal financial advice, and must not be relied on as such. Recipients of this document, who are not wholesale investors (in accordance with Schedule 1, Clause 3 Financial Markets Conduct Act 2013), or their duly appointed agent, should consult an Authorised Financial Adviser and the relevant Product Disclosure Statement or Fund Fact Sheet. Past performance is not a guarantee of future performance. While we believe the information contained in this presentation is correct at the date of presentation, no warranty of accuracy or reliability is given and no responsibility is accepted for errors or omissions including where provided by a third party.