

NIKKO AM GLOBAL BOND FUND

Monthly Fact Sheet

31 May 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 vehicle is a NZ domiciled Portfolio Investment Entity (PIE) which is priced daily. 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
0.61%	1.11%	2.03%	2.86%
2 years (pa)	3 years (pa)	5 years (pa)	Inception (pa)*
4.47%	5.01%		5.65%

* December 2013

Asset allocation

Credit quality rating	Fund
AAA	37.7
AA+, AA, AA-	12.4
A+, A, A-	30.3
BBB	19.4
BB	0.2

Sector	Fund	Index
Governments	37.6	51.0
Agency	7.5	9.1
Credit	18.8	21.1
Collateralised & MBS	32.8	12.5
Emerging market debt	2.5	6.3
Cash, derivatives, other	0.8	0.0

Duration and yield

Duration	Fund 6.77 years versus benchmark 6.78 years
Yield to Maturity	Fund 3.13% versus benchmark 2.85%

Fund commentary

The fund slightly outperformed its index over the month. 0.69% vs 0.65%. Country allocation added the most value over the month (0.06%). Duration strategy was a drag on performance (0.04%).

Market commentary (source: GSAM)

Yields in major **government bond** markets declined in May, due to fewer upside economic surprises and political uncertainties, most notably in the US. In Europe, economic activity remains firm but does not appear to be feeding through to higher inflation. In turn, German government bonds remain supported by expectations for a prolonged period of low policy rates. Yields on 10-year government bonds in France, Spain and Italy declined by 12bps, 11bps and 10bps, respectively, to 0.72%, 1.52% and 2.17%, respectively.

The fund is underweight US rates, while neutral European and Japanese rates. GSAM expect the US Federal Reserve (Fed) to raise rates at its June meeting and see increased likelihood of a change in balance sheet policy occurring in the final quarter of this year. Recent US activity and inflation data has moderated, but on the whole, it remains at healthy levels.

Weak inflation data in the first quarter of this year is largely a reflection of idiosyncratic factors that GSAM do not expect to persist. In Europe and Japan, where core inflation remains subdued largely due to low wage growth, GSAM expect policy rates remaining low for the foreseeable future.

GSAM's highest-conviction relative value position in rates is overweight Europe versus other developed markets. GSAM see core inflation remaining below both consensus and European Central Bank (ECB) forecasts, even after the recent relatively substantial downward revision to the ECB's inflation forecast over the medium term. Elsewhere, the fund overweight rates in Sweden versus the UK, and overweight Canadian rates versus the US.

Agency MBS outperformed duration-neutral US Treasuries by 14 bps in May. The sector continues to be supported by low interest rate volatility and firm demand for risk assets. However, the medium- to long-term outlook for agency MBS valuations remains sensitive to discussion around a tapering in the Fed's balance sheet. The May FOMC minutes stated that most policymakers expect to announce a change in the Fed's reinvestment policy later this year. Primary market activity in asset-backed-securities (ABS) has already surpassed last year's total by 36%, with \$105bn of issuance year-to-date. Activity in 2016 was dominated by auto ABS, which accounted for almost half of issuance, while this year's issuance is largely due to credit card ABS.

The fund is underweight agency MBS. GSAM expect spreads to trend wider amid a pick-up in interest rate volatility, the impending Fed tapering of agency MBS reinvestments and increased supply into the summer home buying season. Within the sector, and predominantly in Ginnie Mae securities, the fund is underweight lower coupon securities and overweight higher coupons. GSAM expect the Fed to announce a change in its reinvestment policy in September, and in line with the recent FOMC statement, GSAM expect tapering to be capped at levels that would limit the size of a reduction in the Fed's balance sheet in any given month. GSAM believe 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 collateralized loan obligations (CLOs) and residential mortgage credit, particularly legacy non-agency MBS which benefits from negative net supply and improving collateral performance.

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.