nikko am
Nikko Asset Management

Nikko AM NZ Unit Trusts

30 April 2016

Nikko AM Wholesale Global Bond Fund

Fund manager

Goldman Sachs Asset Management Australia Pty Ltd – via Nikko Asset Management New Zealand Limited.

Nikko AM is Asia's premier global asset manager. In New Zealand we actively manage NZ$4.8 billion of investments for a diverse group of clients, including superannuation schemes, charitable trusts, KiwiSaver scheme providers, corporations and local government along with providing services to financial intermediaries through wrap platforms.

We offer investment management services in domestic sectors (equities, fixed interest and cash) through our Auckland-based investment team and employ offshore managers to manage global sectors (global equities, global bonds and alternative investments).

Nikko AM utilise 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 with US$702 billion in assets under management. GSAM's Global Fixed Income Team manages US$306 billion of global fixed income assets and has a breadth of investment management expertise with over 200 investment professionals. The globally integrated team has independent strategy teams capturing value across top down (duration, cross sector and country) and bottom up (investment grade credit, high yield, MBS/ABS, government/agency and emerging market debt) strategies.

GSAM was appointed to manage Nikko AM's global fixed interest assets in June 2012.

Fund launch

December 2007 – a similar portfolio has been operated by Nikko AM since March 2002.

Investment objective

Over a rolling three year period, to target a return which exceeds the benchmark by 1% per annum, before fees.

Benchmark

Barclays Capital Global Aggregate Index hedged into NZD

Structure and taxation

The Fund vehicle is a Unit Trust and Portfolio Investment Entity (PIE) which is priced daily. Unit holders elect their own Portfolio Investor Rate. Information is provided to the IRD and unit holders on an annual basis.

Investment process

GSAM's investment philosophy and style is such that they aim to generate outperformance over time without being unduly exposed to one particular investment strategy or market circumstance. GSAM's global approach enables them to capture diverse sources of excess returns and their risk management process ensures the portfolio is not dependent on any particular market inefficiency that may dissipate. The GSAM global fixed interest portfolio is constructed in such a way that aims, over time, to react well to different economic conditions.

The management of GSAM's global fixed interest portfolios is team-based with investment decisions taken collectively, following thorough discussion and debate. The investment process encompasses three key steps:

Step 1: Build a risk budget that takes account of the investment objectives, guidelines and benchmark of the mandate.

Step 2: Identify attractive investment opportunities and implement the best ideas from the specialist top down and bottom up investment strategy teams.

Step 3: Monitor risk and attribution to ensure risks are consistent with investment guidelines.

Distributions

At any date for any period fixed by the Manager

Hedging policy

Assets are 100% hedged into NZD

Management fees and other charges

Investment management fees will be negotiated separately with each investor and invoiced outside the Fund.

All Fund statutory and operating costs will be met directly by the Manager.

Buy/sell spread

Nil

Trustee

Public Trust

Custodian

Public Trust as legal custodian, BNP Paribas Fund Services Australasia Pty Limited delegated as functional custodian.

General Enquiries: NZenquiries@nikkoam.com | +64 9 307 6363

nikko am
Nikko Asset Management

Nikko AM NZ Unit Trusts

30 April 2016

Nikko AM Wholesale Global Bond Fund

Performance (NZD gross returns)

	Fund %	Benchmark %	Excess %
1 month	0.44	0.33	0.11
3 months	**2.58**	**2.46**	**0.12**
6 months	4.27	4.51	-0.24
1 year	**6.39**	**6.01**	**0.39**
2 years (pa)	7.44	8.05	-0.61
3 years (pa)	**6.41**	**6.46**	**-0.05**
5 years (pa)	7.22	7.37	-0.15
10 years (pa)	**7.80**	**7.97**	**-0.16**

Fund size $273 million

Asset allocation

Credit quality rating	
AAA	40.7
AA+, AA, AA-	10.9
A+, A, A-	29.8
BBB	20.7
BB	0.3
Unrated	0.2
Cash, derivatives	-2.6

Sector allocation	Fund	Index
Governments	39.2	52.1
Agency	6.4	9.4
Credit	26.4	20.4
Collateralised & MBS	25.7	11.9
Emerging market debt	4.9	6.2
Cash, derivatives, other	-2.6	0.0
Number of holdings	474	17,189

Duration and yield

Duration	Fund 5.55 years	vs benchmark 6.6 years
Yield to Maturity	Fund 3.76%	vs benchmark 3.3%

Commentary

The **Fund** outperformed its benchmark over the month (0.44% vs 0.33%). At an allocation level, cross sector allocation was the main contribution (+0.17) while country allocation detracted value (-0.12%). Stock selection within the government/swaps and emerging markets sectors added value, (0.05% and 0.04% respectively).

Government bonds sold-off across developed markets over the month of April. In the US, the benchmark 10-year yield closed the month 6bps higher at 1.83%. Rates on UK government bonds followed this upward trend, ending the month at 1.60%, up 18bps. In Japan, the 10-year yield went further negative to close at -0.08%, down 5bps. In Europe, German 10-year yields increased 12bps to end the month at 0.27%. European peripheral spreads also widened over the period, with Spanish and Italian 10-year yields widening by 4bps and 15bps, respectively.

GSAM maintained the Fund's short **duration** position in US rates over the course of the month though the Fed statement in April was slightly more dovish than their expectation. In Europe, the ECB published further details of its corporate sector asset purchase program in April. Purchases will start in June and will be carried out by six national central banks, with the ECB coordinating the purchases and full risk-sharing. GSAM maintained the neutral position in European rates in April. A small short position was added in Japan as the yield curve has experienced significant flattening since the introduction of negative rates. GSAM believe stretched valuations and a number of upcoming fiscal and monetary policy meetings will pressure rates higher, particularly at the long end of the curve.

Investment grade **corporates** strengthened over April as risk appetite improved on better economic data and stronger oil prices, with spreads on the Barclays Global Aggregate Corporates Index tightening 15bps to 143bps over sovereigns. US corporates strengthened, with spreads on the Barclays US Aggregate Corporates Index tightening 17bps to 146bps over sovereigns. European corporates underperformed US corporates, with spreads on the Barclays Euro Aggregate Corporates Index tightening 9bps to 122bps over sovereigns. Also notable was that following recent months of underperformance, investment grade banks have started to narrow their performance gap with non-financials. Credit derivatives underperformed cash bonds in the US and Europe, with spreads on the CDX IG S26 Index tightening 1bp to 77bps, and spreads on the iTraxx EUR S25 Index remaining unchanged at 73bps. Gross new issuance for the month declined further, amounting to roughly $68bn in the US and $69bn in Europe.

The fund holds a modest long position in corporate credit. However, the overweight position has been pared back as a result of meaningful rallies since February, less risk premia due to reduced market concern over global risk factors and the fact that seasonals tend to be less supportive in May and June. Large rallies have driven valuations to levels that warrant a more modest overweight, in our view. Given we are in the late stage of the credit cycle, we want to take this opportunity to reduce exposure to names that have recently tightened and that were very illiquid during the first quarter of the year. Within the credit quality spectrum, we maintain a bias to triple-B rated credit as well as a preference for the intermediate part of the corporate term structure. The Fund has an overweight position in consumer products, banking and tobacco (mainly as a result of single-security, bottom-up views rather than thematic sector-level decisions), while underweight the energy, insurance and media non-cable industries.