Nikko AM Wholesale Global Bond Fund

Fund manager

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

In New Zealand we actively manages around NZ$5 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 NZ 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 AUD1,126 billion in assets under management. GSAM's Global Fixed Income Team manages AUD451 billion of global fixed income assets.

Fund launch

October 2008

Investment objective

To construct a portfolio of authorised investments that outperform the Fund's benchmark return by 1.0% per annum over a rolling three year period before fees.

Benchmark

Barclays Capital Global Aggregate Index hedged into NZD

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%.

Distributions

Generally on calendar quarters, or at any date for any period determined by the Manager.

Structure and taxation

The Fund vehicle is a Portfolio Investment Entity (PIE) which is priced daily. Investors elect their own Portfolio Investor Rate. Information is provided to the IR and investors 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.

Management fees

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.

Performance (NZD gross returns)

	Fund	Benchmark	Excess
1 month	1.18%	0.75%	0.43%
3 months	3.44%	3.37%	0.07%
6 months	6.10%	5.91%	0.19%
1 year	9.37%	9.47%	-0.10%
2 years (pa)	7.88%	8.57%	-0.69%
3 years (pa)	8.33%	8.35%	-0.02%
5 years (pa)	7.60%	7.56%	0.04%
10 years (pa)	7.99%	8.11%	-0.12%

Fund size

NZ$285 million

Asset allocation

Credit quality rating	
AAA	30.4%
AA+, AA. AA-	13.3%
A+, A, A-	37.2%
BBB	18.8%
BB	0.3%

Sector	Fund	Index
Governments	45.3%	52.4%
Agency	5.4%	9.3%
Credit	20.7%	20.4%
Collateralised & MBS	25.3%	11.7%
Emerging market debt	4.3%	6.2%
Cash, derivatives, other	-1.0%	

Duration and yield

Duration	Fund 6.12 years versus benchmark 6.79 years
Yield	Fund 3.24% versus benchmark 2.97%

Commentary

Yields on **sovereign** bonds generally fell over the month with US 10-year down 2 bps to 1.45%, UK down 18bps to 0.69%, German up 1bps to -0.12% and Japanese up 3 bps to -0.20%.

In an environment where growth in many economies is faltering, political and geopolitical event risk is elevated and monetary policy is increasingly disruptive, steady job gains in the US and positive economic data surprises have provided critical fundamental support for financial markets and support expectations for a US Federal Reserve (Fed) interest rate hike this year.

The **Fund** outperformed its index over the month with most of the value added from country allocation (+21bpts) followed by stock selection within the government/swaps sector (+11bps). Stock selection within the corporate sector also added value (6bps).

Investment grade **corporates** bounced back in July. Reduced uncertainty around the UK as Theresa May assumed the role of Prime Minister, outperformance in commodity-related sectors and the ECB's Corporate Sector Purchase Programme, contributed to the rally in risk assets over the month. Spreads on the Barclays Global Aggregate Corporates Index tightened 15bps to 139bps over sovereigns. US corporates and European corporates both strengthened, with spreads on the Barclays US Aggregate Corporates Index tightening 11bps to 145bps over sovereigns and spreads on the Barclays Euro Aggregate Corporates Index tightening 23bps to 114bps over sovereigns. Sterling corporates performed particularly strongly in July with spreads on Barclays Sterling Corporates Index tightening 33bps to 154bps over sovereigns.

Issuance rose on a month-on-month basis, as the market's reaction to Brexit was surprisingly orderly. Gross new issuance for the month amounted to roughly $86bn in the US and $32bn in the European markets.

Agency **mortgage-backed securities** (MBS) outperformed duration-neutral US Treasuries by 13bps in July. While agency MBS supply surprised to the high side with approximately $30bn of net issuance, the assets class has been supported by strong demand from both US commercial banks as well as foreign institutional investors. Federal Reserve data show that agency MBS securities held by US commercial banks increased by over $20bn in July, while foreign demand is being driven by Japan, Taiwan and other Asian investors. Outside of agency MBS, asset backed securities (ABS) new issuance has also picked up in recent weeks, with auto and student loan sectors seeing increased issuance in July. Spreads have tightened into the additional supply, with many new issues being oversubscribed. Collateral performance continues to be supported by strong overall consumer credit fundamentals.

Compliance

The Fund complied with its investment mandate during the month.