

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 manage 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 AUD 1,126 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 Prescribed 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.

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Performance (NZD gross returns)

	Fund	Benchmark	Excess
1 month	0.15%	0.12%	0.03%
3 months	1.69%	0.97%	0.72%
6 months	4.41%	3.94%	0.47%
1 year	9.31%	8.85%	0.46%
2 years (pa)	7.47%	7.88%	-0.41%
3 years (pa)	8.21%	8.14%	0.07%
5 years (pa)	7.34%	7.11%	0.23%
10 years (pa)	7.82%	7.87%	-0.05%

Fund size

NZ\$260million

Asset allocation

Credit quality rating	
AAA	28.66%
AA+, AA, AA-	12.04%
A+, A, A-	39.26%
BBB	19.87%
BB	0.17%

Sector	Fund	Index
Governments	43.40%	52.20%
Agency	5.90%	9.20%
Credit	21.30%	20.80%
Collateralised & MBS	30.10%	11.70%
Emerging market debt	4.80%	6.10%
Cash, derivatives, other	-5.50%	0.00%

Duration and yield

Duration	Fund 6.60 years versus benchmark 6.79 years
Yield to Maturity	Fund 3.35% versus benchmark 3.02%

Commentary

During September the **Bank of Japan (BoJ)** unveiled a new policy framework which involves ‘Quantitative and Qualitative Monetary Easing (QQE) with Yield Curve Control’ and an ‘inflation-overshooting commitment’. The measures are designed to address the impact of low yields on financial institutions.

Sterling credit markets received technical support from accommodative monetary policy, with the Bank of England (BoE) commencing its Corporate Bond Purchase Scheme (CBPS).

Government bonds displayed mixed performance over the quarter. In the US, 10-year yields closed 12 bps higher at 1.59%, UK down 12 bps to 0.75%, German 1bp up to -0.12% and Japanese up 13bps to -0.09%.

The **Fund** outperformed over the month and quarter ended September. Over the quarter, country allocation added the most value (+0.38%), followed by the allocation to government/ swaps and securitized securities (0.16% and 0.10% respectively). Emerging market debt detracted value (-0.07%).

Agency MBS outperformed duration-neutral US Treasuries by 64bps over the quarter. The sector benefitted from low volatility and demand from foreign investors and domestic and commercial banks looking for yield. GSAM believes collateralized loan obligations and asset backed securities offer attractive spreads with strong credit protection and remain among the most compelling sectors in securitized products.

Investment grade corporate spreads finished the quarter 134bps over sovereigns. The Fund’s modest overweight reflects GSAM view that spreads could potentially drift wider in this late stage of the credit cycle. GSAM’s are mindful of weakness arising from slowly deteriorating fundamentals as economic and political ramifications of Brexit begin to emerge. However, any widening of spreads is expected to be moderate given accommodative central banks programs in Europe and the UK.

Compliance

The Fund complied with its investment mandate during the month.