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

Bloomberg Barclays Global Aggregate Index (100% 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.

Performance (NZD gross returns)

	Fund	Benchmark	Excess
1 month	-0.70%	-0.86%	0.16%
3 months	-0.20%	-0.65%	0.44%
6 months	3.23%	2.70%	0.52%
1 year	7.64%	7.34%	0.30%
2 years (pa)	6.95%	6.85%	0.10%
3 years (pa)	7.51%	7.43%	0.08%
5 years (pa)	7.07%	6.89%	0.17%
10 years (pa)	7.68%	7.70%	-0.01%

Fund size

NZ$256million

Asset allocation

Credit quality rating	
AAA	26.5%
AA+, AA. AA-	11.7%
A+, A, A-	39.6%
BBB	22.0%
BB	0.2%

Sector	Fund	Index
Governments	45.6%	51.7%
Agency	5.8%	9.3%
Credit	21.6%	20.8%
Collateralised & MBS	31.4%	12.1%
Emerging market debt	4.5%	6.1%
Cash, derivatives, other	-8.9%	0.0%

Duration and yield

Duration	Fund 6.83 years versus benchmark 6.75 years
Yield to Maturity	Fund 3.47% versus benchmark 3.10%

Commentary

In the US, Donald Trump's election victory drove turbulence across global markets, but the impact has been less dramatic than GSAM expected. Stocks have rallied sharply from an initial sell off and the benchmark US 10-year yield pushed up to 2%.

The **Fund** outperformed its index over the month with most of the value added being from duration strategy and country allocation (+4bps each) followed by stock selection within the corporate sector (+3bps). Stock selection within the securitized sector detracted value (-6bps).

Over October, constructive global economic data led to a widespread sell-off in **government bonds.** In the US, the benchmark 10-year yield closed the month 24bps higher at 1.83%. The UK 10-year government bond reached its highest level since the Brexit outcome, ending the month 50 bps higher at 1.25%. In Japan, the 10-year yield increased by 4bps to -0.05%. In Europe, German 10-year yields were up by 28bps, ending the month in the positive territory at 0.16%. In European peripherals, Spanish and Italian 20-year yields rose 32bps and 49 bps respectively.

Agency **mortgage-backed** securities (MBS) modestly outperformed duration-neutral US Treasuries by 2bps in October. The sector was impacted by heighted implied interest rate volatility amid uncertainly centered on the US presidential election. GSAM believes senior collateralized loan obligations and Federal Family Education Loan Program asset backed securities 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.

Investment grade **corporate credit** strengthened over the month with spreads on the Bloomberg Barclays Global Aggregate Corporate index tightening by 6bps to 128bps over sovereigns. Spreads on Euro corporates tightened by 6bps to 109bps over sovereigns reflecting support from the ECB's corporate sector purchase programme. US corporates also strengthened, with spreads on tightening 6bps to 132bps over Treasures. Sterling corporates were the worst performing segment with spreads widening by 2bps to 146bps over Gilts as concerns of a 'hard Brexit' offset the positive impact of the BoE's corporate sector purchase program. The Fund is modestly overweight credit as GSAM believe the 'reach-for-yield' theme coupled with continued monetary easing in Europe, the UK and Japan, will continue to be supportive of risk assets. However, potentially expensive valuations, which in part reflect the effect of central bank asset purchase programmes, and late-stage credit cycle characteristics, leave GSAM cautious on the sector exposure, particularly with regard to US corporates where the credit cycle appears more advanced. The Fund's holdings are biased to down-in-quality bonds and a preference for the intermediate term structure. The Fund is overweight European and UK corporates, mainly as these regions continue to see support from the central banks' corporate buying programmes. GSAM sees value in the Consumer Products and Pipelines and industries, as a result of both thematic and single-security views, while underweight the Energy, Insurance and Media industries.

Compliance

The Fund complied with its investment mandate during the month.