nikko am
Nikko Asset Management

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	0.00%	0.05%	-0.05%
3 months	0.87%	0.77%	0.10%
6 months	-0.80%	-1.26%	0.46%
1 year	3.58%	2.63%	0.95%
2 years (pa)	4.72%	4.01%	0.71%
3 years (pa)	6.27%	6.43%	-0.15%
5 years (pa)	6.28%	6.14%	0.14%
10 years (pa)	7.36%	7.39%	-0.02%

Fund size

NZ$248million

Asset allocation

Credit quality rating	
AAA	32.8%
AA+, AA. AA-	21.3%
A+, A, A-	33.6%
BBB	12.1%
BB	0.2%

Sector	Fund	Index
Governments	49.4%	50.7%
Agency	4.5%	9.1%
Credit	16.7%	21.1%
Collateralised & MBS	33.2%	12.8%
Emerging market debt	2.0%	6.3%
Cash, derivatives, other	-5.8%	0.0%

Duration and yield

Duration	Fund 6.77 years versus benchmark 6.78 years
Yield to Maturity	Fund 3.21% versus benchmark 3.03%

Market commentary

Over the quarter rates moved to varying degrees across regions. The US 10-year rate fell 6bps to close at 2.39%, UK fell 10bps to close at 3.01% while the French rate rose 29bps to close at 0.97% and German rose 12 bps to close at 0.33%.

At its March meeting, the US Federal Reserve (Fed) tightened monetary policy for the third time since the global financial crisis, raising the target range for the federal funds rate 25bps, to 0.75-1%. The minutes raised expectations that the Fed will start reducing its balance sheet around year end. The fund is underweight US rates and agency mortgage-backed securities (MBS).

European political risk remains contained, as markets weathered the official start of Brexit negotiations and the far right lost to centrists in the Dutch elections. Improved economic data and the European Central Bank's (ECB) upward revisions to its growth and inflation targets have raised speculation that the central bank may raise interest rates this year. GSAM don't anticipate a rate hike before 2019 and expect the ECB will first unwind its quantitative easing (QE) program, starting in early 2018. The fund is overweight European rates versus US rates.

Fund commentary

The fund outperformed its index over the quarter. Stock selection within the government/swaps sector added the most value (12bps) followed by country allocation and cross sector allocation (7bps each). Stock selection within the securitized sector detracted the most value (7bps), followed by duration strategy (detracting 5bps).

The fund is overweight rates in Australia versus the US based on divergent monetary policy outlooks. GSAM expect the Reserve Bank of Australia (RBA) to maintain an accommodative policy stance as the economy continues to transition from dependence on the mining sector. In contrast, GSAM see inflation rising amid a tightening labor market in the US, thereby supporting monetary tightening. The fund is also underweight long-end UK rates—predominately versus European rates— on the belief that risk premiums do not adequately reflect Brexit negotiation uncertainties.

Agency mortgage-backed securities (MBS) underperformed over the quarter by 27bps. Performance fluctuated amid evolving news around the Fed's future pace of rate hikes and its strategy for reducing its balance sheet holdings of both agency MBS and US Treasury securities. GSAM expect agency MBS spreads to widen this year due to increased interest rate volatility and rising concerns over the Fed's strategy for reducing its balance sheet. The fund is underweight agency MBS, and within the sector, predominately in Ginnie Mae securities, and underweight lower coupon securities and overweight higher coupons. GSAM continue to believe senior CLOs and Federal Family Education Loan Program (FFELP) ABS offer attractive spreads with strong credit protection, and therefore remain among the most compelling sectors in securitized products. GSAM are also positive on residential mortgage credit, particularly legacy non-agency MBS. These securities are supported by negative net supply and show improving collateral performance.

Investment grade corporate credit was relatively unchanged. The fund is modestly underweight with GSAM preferring securitized credit for yield. Factors supporting investment grade credit include stabilization in corporate leverage and fundamentals, and positive seasonal trends. That being said, GSAM remain cautious due to stretched valuations and headwinds posed by positioning signals, as well as policy challenges in the US and political uncertainties in Europe and the UK. The fund is overweight US dollar-denominated credits, due to a positive near-term US growth outlook and underweight euro-denominated credits, in part due to excessive valuations which perhaps a consequence of QE. Among sectors, GSAM see value in US Banks, which may benefit from an unwind of regulations and rising US rates. For similar reasons the fund is overweight Life Insurance. GSAM are also constructive on Pipelines, which stand to benefit from a pick-up in US activity, while we are underweight Pharmaceuticals and Media industries.

Compliance

The Fund complied with its investment mandate during the month.