Nikko AM NZ Unit Trusts (Retail) Fund Summary

Nikko AM Global Bond Fund 29 February 2016

Fund manager

Nikko Asset Management New Zealand Limited (Nikko AM).

Nikko AM is Asia's premier global asset manager. We actively manage over 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).

Investment manager

Nikko AM use Goldman Sachs Asset Management Australia Pty Ltd (GSAM) for the management of global fixed income 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 income assets in June 2012.

Fund launch

June 2012 (a similar portfolio has been operated by Nikko AM since March 2002).

Investment objective

The objective of the Fund is 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, expenses and taxes.

Benchmark

Barclays Capital Global Aggregate Index hedged into NZD

Investment philosophy and 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.

Hedging policy

All assets are 100% 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 Investment Rate. Information is provided to the IRD and unit holders on an annual basis.

The Fund gains its exposure by investing in the Nikko AM Wholesale Global Bond Fund.

PIE eligibility

Nikko AM may take any action it deems appropriate to ensure the Fund remains eligible to be a PIE. This includes the ability of Nikko AM to compulsorily withdraw a unit holder's units and pay the proceeds to that unit holder's nominated bank account.

Distributions

Quarterly. Last business days of March, June, September and December.

Investment restrictions

Nikko AM Wholesale Global Bond Fund – the wholesale unit trust that the Nikko AM Global Bond Fund invests into.

- Authorised investments include global investment grade bonds, global high yield and emerging market debt securities, money market instruments, spot and forward currency contracts; mortgage backed securities; structured securities; derivative instruments including futures, swaps, Forward Rate Agreements and options; and affiliated mutual funds.
- Long term rated securities must be rated BBB- or higher by Standard & Poor's, Moody's and/or Fitch.
- Short term rated money market investments must be rated A2/P2/F2 or better by Standard & Poor's, Moody's and/or Fitch.
- Weighted average modified duration within +/- 2.5 years of the benchmark's weighted average modified duration.
- Unrated securities are permissible if, in the opinion of the Manager, the credit quality of the security is equal to or better than the minimum permissible credit quality.
- Maximum of 5% aggregate exposure to bonds of any one corporate issuer, excluding single-name credit default swap exposures.

Management fees and other charges

A management fee of 0.65% per annum calculated as a percentage of the gross asset value of the Fund will be calculated and deducted from the Fund. This fee is calculated daily and is payable to Nikko AM. The management fee may be reduced or waived at our discretion.

Nikko AM may recover expenses (including the Trustee fee) up to a maximum of 0.25% per annum from the Fund.

Buy/sell spread

Nil

Trustee

Public Trust

Custodian

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

Minimum investment

Initial investment	$5,000
Further investments	$1,000

The Manager may accept applications for investments below the minimum investment amount at its discretion.

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Performance
(NZD returns; before tax, after fees and expenses)

1 month	3 months	6 months	1 year
0.79%	1.42%	3.16%	3.89%
2 years (pa)	**3 years (pa)**	**5 years (pa)**	**Inception (pa)***
6.17%	n.a.	n.a.	6.59%

* December 2013

Asset allocation

Credit quality rating	
AAA	31.3%
AA+, AA, AA-	11.2%
A+, A, A-	30.7%
BBB	20.2%
Unrated	0.5%
Derivatives & liquidity	6.1%

Sector	Fund	Index
Governments	32.0%	52.0%
Agency	4.2%	9.3%
Credit	27.7%	20.2%
Collateralised & MBS	25.2%	12.5%
Emerging market debt	4.8%	6.0%
Cash, derivatives, other	6.1%	0.0%
Number of holdings	463	17,062

Duration and yield

Duration	Fund 6.44 years	vs benchmark 6.45 years
Yield to Maturity	Fund 4.02%	vs benchmark 3.57%

Commentary

The Fund underperformed its benchmark over the month with country allocation and cross sector allocation the main detractors of performance.

Government bond yields tightened across developed markets in February. In the US, the benchmark 10-year yield closed the month 19 basis points lower at1.73%. Rates on UK government bonds followed this downward trend, ending the month at 1.34%. In Japan, the 10-year yield fell below zero for the first time to -0.06% after the Bank of Japan surprisingly adopted negative interest rates. In Europe, German 10-year yields fell 21 basis points ending the month at 0.11%. European peripheral spreads widened over the period with Spanish and Italian 10-year yields widening slightly by 2 basis points and 1 basis point, respectively.

GSAM has moved from neutral to short in US rates over the course of the month, as signals suggest Treasuries are rich. Recent positive inflation, wage and growth data and a slight easing in financial conditions also support a short position in US rates. In Europe, the European Central Bank (ECB) increased its quantitative easing program at its March meeting. Further easing included a cut to the deposit rate by 10 basis points, US$20 billion in additional monthly purchases, as well as the purchasing of non-financial investment grade corporate bonds to begin at the end of the second quarter. GSAM is neutral in European rates.

Within the G10, GSAM maintains a long position in European, Australian and Canadian rates and short positions in the US and UK. In the periphery, they remain marginally long Italy and Spain. GSAM expects low inflation to prompt the ECB to maintain its accommodative stance. In Australia, GSAM maintained their long position as low inflation and deteriorating terms of trade are likely to see the Reserve Bank of Australia maintain an easing bias, even in the face of tighter monetary policy from the Fed.

Agency mortgage-backed securities (MBS) underperformed duration-neutral US Treasuries by 14 basis points in February, but outperformed other spread assets, such as investment grade corporate, fueled by a flight-to-quality by investors amid fears of slowing global growth. Agency MBS have benefitted from the general risk-off market. The Fund is underweight agency MBS as GSAM expect continued increased supply and deteriorating financing conditions to further weigh on the sector. GSAM remain positive on AAA-rated CMBS and CLOs. GSAM believe these securities offer attractive exposure to credit spreads with limited exposure to energy and metals and mining, though recent widening has led to reduction in positions. GSAM are positive on non-agency residential mortgage-backed securities (RMBS) and expect fundamentals will continue to improve and that spreads will exhibit lower correlation to macro-driven spread movements in other sectors.

Investment grade corporate credit spreads widened over February, with spreads on the Barclays Global Aggregate Corporates Index widening 5 basis points to 188 basis points over sovereigns. US corporates weakened while European corporates underperformed US corporates. Gross new issuance in the US was approximately US$97 billion in February, with industrial issuers representing the largest portion of issuance. European issuance was US$52 billion for the month, higher than January.

GSAM expects the global growth and general outlook for risk assets to improve in the longer term, however, markets remain challenged in the near term, with factors such as the potential impacts of lower oil prices and weakness in the US manufacturing sector both representing risks and creating opportunities. GSAM believes present conditions merit a cautious approach, wherein tactical positioning and security selection will be key. Within the credit quality spectrum, GSAM is biased to triple-B rated credit as well as a preference for the intermediate part of the corporate term structure. The Fund holds overweight positions in banking, consumer products and pipelines (mainly as a result of single-security, bottom-up views rather than thematic sector-level decisions), while underweight the media non-cable, energy and property and casualty insurance industries.

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