

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 all 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.

Performance

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

1 month	3 months	6 months	1 year
1.41%	3.23%	4.01%	4.87%
2 years (pa)	3 years (pa)	5 years (pa)	Inception (pa)*
6.57%	n.a.	n.a.	6.98%

* December 2013

Asset allocation

Credit quality rating	
AAA	41.2%
AA+, AA, AA-	10.9%
A+, A, A-	29.4%
BBB	20.3%
BB	0.3%
Unrated	0.3%
Derivatives & liquidity	-2.4%

Sector	Fund	Index
Governments	42.0%	51.9%
Agency	3.9%	9.4%
Credit	27.0%	20.4%
Collateralised & MBS	24.9%	12.1%
Emerging market debt	4.6%	6.2%
Cash, derivatives, other	-2.4%	0.0%
Number of holdings	459	17,127

Duration and yield

Duration	Fund 5.83 years	vs benchmark 6.55 years
Yield to Maturity	Fund 3.73%	vs benchmark 3.33%

Commentary

Government bonds sold-off across developed markets over March. In the US, the 10-year yield closed the month 4 basis points higher at 1.77%. Rates on UK government bonds followed this upward trend, ending the month at 1.42%, up 8 basis points. In Japan, the 10-year yield remained negative although it also rose slightly to close at -0.03%. In Europe, German 10-year yields edged up 4 basis points to end the month at 0.15% and European peripheral spreads tightened over the period with Spanish and Italian 10-year yields declining by 14 basis points and 25 basis points, respectively.

GSAM maintained their short in US rates over the course of the month though the Fed surprised the markets with a dovish stance in the March policy meeting. GSAM believes firming core inflation and

improving wage growth data, along with some stabilising in commodities, support a short position in US rates. In Europe, the ECB announced an increase in monthly asset purchases by €20bn, to €80bn a month, and the buying of euro-denominated bonds of investment grade, non-financial Eurozone companies as part of its most recent QE expansion. This was in addition to a further cut to the deposit rate by 10 basis points, to -40 basis points, and a 5 basis points cut to benchmark refinancing and lending rates, to 0% and 0.25%, respectively. We maintained our neutral position in European rates in March.

Within the G10, GSAM remains long European rates, and short in the US and UK. GSAM added to their short position in Japan as rates at the long end have rallied since the Bank of Japan introduced negative rates. Base case expectation is for the Bank of Japan to remain on hold at its April 28 policy meeting, as inflation has not markedly deteriorated since January and policymakers will likely want to wait a bit longer to see the impact of the first cut before moving further negative. In the periphery, GSAM remains marginally long Italy and Spain and believe low Eurozone inflation will likely keep the pressure on the ECB to maintain its accommodative stance with a bias to ease further. In Australia, 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 potentially tighter Fed policy. In Canada, domestic demand is softening and lower oil prices will likely remain a drag on the economy. GSAM are long Australian and Canadian rates.

Agency mortgage-backed securities (MBS) outperformed duration-neutral US Treasuries by 15 basis points in March and underperformed by 38 basis points over the quarter. In March MBS benefitted from dovish commentary from the Federal Reserve (Fed) and support from overall risk asset spread tightening. Net supply over the first quarter was muted at \$35bn owing partially to negative housing seasonals. US commercial banks, which surpassed expectations in 2015 by purchasing \$150bn in agency MBS, only purchased \$10bn of MBS in the first quarter. GSAM ended the quarter covering some of their underweight to agency MBS as valuations on spread products rallied and MBS were positioned to benefit from expected seasonal demand from Japanese buyers following their fiscal year-end. However, as we move away from quarter-end, GSAM are positioned with a small underweight to agency MBS and expect the supply-demand picture for MBS to turn negative.

Investment grade corporate credit spreads tightened over March, with spreads on the Barclays Global Aggregate Corporates Index tightening 30 basis points to 158 basis points over sovereigns. US corporates strengthened and European corporates underperformed US corporates. Gross new issuance for the month was approximately \$98bn in the US, with financial issuers representing the largest portion of issuance. Issuance also picked up in the European market, at around \$82bn for the month.

GSAM currently holds a modest long position in corporate credit. Markets remain challenged in the near term by factors such as weak global growth, commodity market volatility and late-cycle credit activity both representing risks and creating opportunities. GSAM now holds a marginally more constructive outlook on oil prices and expect monetary policy could continue to be supportive in both Europe and the US. Supportive actions from the European Central Bank (ECB) and a potentially more dovish Fed would positively impact risk assets, however GSAM also believed present conditions merit a cautious approach with particular focus on tactical positioning and security selection.

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General Enquiries: NZenquiries@nikkoam.com | +64 9 307 6363