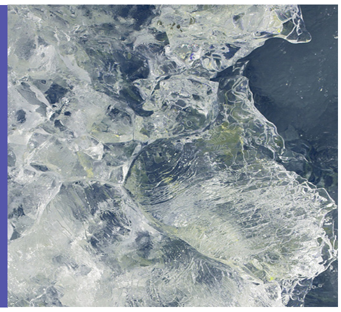
nikko am
Nikko Asset Management

NIKKO AM GLOBAL BOND FUND

Monthly Fact Sheet 31 July 2016



Investment objective

The objective of the Fund is to construct a portfolio of permitted 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

Fund description

The Fund aims to provide investors with regular income by constructing an actively managed investment portfolio of permitted investments, with the potential for capital gains from global fixed interest markets.

The Fund gains its investment exposure by investing into the Nikko AM Wholesale Global Bond Fund. The nominated global manager (Goldman Sachs Asset Management) is responsible for the investment management of the assets of the Nikko AM Wholesale Global Bond Fund.

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%. Currency hedging contracts are held in the Nikko AM Wholesale Global Bond Fund.

Management fees and other charges

A management fee of 0.65% per annum calculated as a percentage of the net asset value of the Fund will be calculated and deducted from the Fund.

Nikko AM may also recover expenses (including the Trustee fee) from the Fund up to a maximum of 0.25% per annum of the Fund's net asset value. Estimate of expenses as at 1 July 2016 are 0.22% per annum.

Buy/sell spread

Nil

Strategic asset allocation

	Target	Range
Nikko AM Wholesale Global Bond Fund	100%	95% ⇔ 100%
Cash on call for investor transactions	0%	0% ⇔ 5%

Refer to the SIPO for full details of permitted investments and restrictions.

Performance

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

1 month	3 months	6 months	1 year
0.77%	2.69%	5.47%	8.01%

2 years (pa)	3 years (pa)	5 years (pa)	Inception (pa)*
6.53%	na	na	7.34%

* December 2013

Asset allocation

Credit quality rating	Fund
AAA	33.1%
AA+, AA, AA-	11.6%
A+, A, A-	36.2%
BBB	18.8%
BB	0.3%

Sector	Fund	Index
Governments	45.3%	52.4%
Agency	5.4%	9.3%
Credit	20.7%	20.4%
Collateralised & MBS	25.3%	11.7%
Emerging market debt	4.3%	6.2%
Cash, derivatives, other	-1.0%	0.0%
Number of holdings	438	17,461

Duration and yield

Duration	Fund 6.12 years versus benchmark 6.79 years
Yield	Fund 3.24% versus benchmark 2.97%

Commentary

The Fund (before fees and tax) outperformed its benchmark index over the month with most of the value added from country allocation (+21 basis points) followed by stock selection within the government/swaps sector (+11 basis points). Stock selection within the corporate sector also added value (6 basis points).

Yields on **government bonds** generally fell over the month with US 10-year down 2 basis points to 1.45%, UK down 18 basis points to 0.69%, German up 1 basis point to -0.12% and Japanese up 3 basis points to -0.20%.

In an environment where growth in many economies is faltering, political and geopolitical event risk is elevated and monetary policy is increasingly disruptive, steady job gains in the US and positive economic data surprises have provided critical fundamental support for financial markets and support expectations for a US Federal Reserve (Fed) interest rate hike this year.

GSAM has maintained its short duration position in US rates based on positive US economic data releases, relatively loose financial conditions, stretched valuations post the rallies after the Brexit outcome and a slightly more hawkish statement from the Fed at the July FOMC meeting. GSAM has also maintained its short position in Japan rates and expect the Japanese government bond yield curve to steepen after having rallied significantly to record low yields since earlier this year. GSAM remained neutral in European rates as the ECB is expected to maintain its easing bias.

Investment grade **corporates** bounced back in July. Reduced uncertainty around the UK as Theresa May assumed the role of Prime Minister, outperformance in commodity-related sectors and the ECB's Corporate Sector Purchase Programme, contributed to the rally in risk assets over the month. Spreads on the Barclays Global Aggregate Corporates Index tightened 15 basis points to 139 basis points over sovereigns. US corporates and European corporates both strengthened, with spreads on the Barclays US Aggregate Corporates Index tightening 11 basis points to 145 basis points over sovereigns and spreads on the Barclays Euro Aggregate Corporates Index tightening 23 basis points to 114 basis points over sovereigns. Sterling corporates performed particularly strongly in July with spreads on Barclays Sterling Corporates Index tightening 33 basis points to 154 basis points over sovereigns.

Issuance rose on a month-on-month basis, as the market's reaction to Brexit was surprisingly orderly. Gross new issuance for the month amounted to roughly US$86 billion in the US and US$32 billion in the European markets.

GSAM are modestly underweight in corporate credit believing that investment grade corporate spreads could drift wider given the late stage of the credit cycle, weak seasonal factors, deteriorating fundamentals, and the economic and political ramifications of Brexit.

Agency mortgage-backed securities (MBS) outperformed duration-neutral US Treasuries by 13 basis points in July. While agency MBS supply surprised to the high side with approximately US$30 billion of net issuance, the assets class has been supported by strong demand from both US commercial banks as well as foreign institutional investors. Federal Reserve data show that agency MBS securities held by US commercial banks increased by over US$20 billion in July, while foreign demand is being driven by Japan, Taiwan and other Asian investors. Outside of agency MBS, asset backed securities (ABS) new issuance has also picked up in recent weeks, with auto and student loan sectors seeing increased issuance in July. Spreads have tightened into the additional supply, with many new issues being oversubscribed. Collateral performance continues to be supported by strong overall consumer credit fundamentals.

GSAM remained underweight agency MBS and expect increased prepayments and increased supply in the current low interest rate environment.