NIKKO AM GLOBAL BOND FUND

Monthly Fact Sheet 31 August 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. An estimate of expenses as at the time of publication is 0.20% 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
0.63%	2.90%	5.30%	8.63%

2 years (pa)	3 years (pa)	5 years (pa)	Inception (pa)*
6.41%	na	na	7.35%

* December 2013

Asset allocation

Credit quality rating	Fund
AAA	27.4%
AA+, AA, AA-	13.0%
A+, A, A-	39.4%
BBB	19.1%
BB	1.1%

Sector	Fund	Index
Governments	42.9%	52.1%
Agency	6.1%	9.3%
Credit	21.4%	20.5%
Collateralised & MBS	29.5%	11.7%
Emerging market debt	4.9%	6.2%
Cash, derivatives, other	-4.8%	

Duration and yield

Duration	Fund 6.64 years versus benchmark 6.76 years
Yield	Fund 3.19% versus benchmark 2.94%

Commentary

Following a general decline in **sovereign** yields in July, we saw US 10- year sovereign rates rise sharply in August by 0.12% to 1.57%, and Japanese rates similarly rising by 0.12% to -0.07%. By contrast the UK's 10-year sovereign rates continued to rally, falling 0.05% down to 0.64%.

The Fund was positioned well for these changes with shorter duration positions in the US and Japanese markets and small long positions in UK rates over the month.

Central banks remain accommodative in the face of political uncertainties and anaemic growth and inflation outlooks. The Bank of England unveiled policies to help the UK transition out of the EU (Brexit), and mixed comments from US central bankers along with some softer data points means that GSAM believes any change in policy rate is more likely to be in December than September.

Following the market moves over the month, the Fund continues to maintain a short duration position in US rates, albeit that this position was reduced following Janet Yellen's speech at the Jackson Hole conference. The relative positions to UK and Japanese rates have also been removed.

Investment grade **corporates** continued to strengthen in August as oil prices rebound and the ECB and BoE purchased corporate securities. The credit spread on the Barclays Global Aggregate Corporates Index tightened from 139bps to 130bps over the month. The Fund is now modestly underweight corporate credit through its exposure to both physical and derivative securities. GSAM believe that credit spreads could start to drift wider as we enter the later stages of the current credit cycle, albeit that any widening is likely to be moderated by the continuing asset purchase programmes

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Within the credit sector, the Fund has a preference for European credit over US credit, and value to be found in consumer products, pipelines and tobacco from a bottom up perspective rather than any thematic decision.

Mortgage-backed Securities (MBS) outperformed duration-neutral Treasuries by 0.32% in August, benefitting from low volatility and foreign investor demand. CMBS also outperformed over the month in line with corporate credit spreads. The Fund has reduced its underweight to MBS, though remains slightly underweight due to the view that supply will increase near-term combined with lighter overall demand. However, the Fund is positively disposed towards legacy non-agency MBS which continue to benefit from negative net supply and show improving collateral performance.

Portfolio duration and Country allocations were the largest contributions to performance, whilst emerging market debt was a minor detraction

The **Fund** performed well during the month, well ahead of the benchmark return of 0.10%.

Compliance

The Fund complied with its investment mandate during the month.