NIKKO AM GLOBAL BOND FUND

Monthly Fact Sheet 30 September 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
0.14%	1.54%	3.98%	8.15%

2 years (pa)	3 years (pa)	5 years (pa)	Inception (pa)*
6.42%	na	na	7.10%

* December 2013

Asset allocation

Credit quality rating	Fund
AAA	28.66%
AA+, AA. AA-	12.04%
A+, A, A-	39.26%
BBB	19.87%
BB	0.17%

Sector	Fund	Index
Governments	43.40%	52.20%
Agency	5.90%	9.20%
Credit	21.30%	20.80%
Collateralised & MBS	30.10%	11.70%
Emerging market debt	4.80%	6.10%
Cash, derivatives, other	-5.50%	0.00%

Duration and yield

Duration	Fund 6.60 years versus benchmark 6.79 years
Yield to Maturity	Fund 3.35% versus benchmark 3.02%

Commentary

During September the **Bank of Japan (BoJ)** unveiled a new policy framework which involves 'Quantitative and Qualitative Monetary Easing (QQE) with Yield Curve Control' and an 'inflation-overshooting commitment'. The measures are designed to address the impact of low yields on financial institutions.

Sterling credit markets received technical support from accommodative monetary policy, with the Bank of England (BoE) commencing its Corporate Bond Purchase Scheme (CBPS).

Government bonds displayed mixed performance over the quarter. In the US, 10-year yields closed 12 bps higher at 1.59%, UK down 12 bps to 0.75%, German 1bp up to -0.12% and Japanese up 13bps to -0.09%.

The **Fund** outperformed over the month and quarter ended September. Over the quarter, country allocation added the most value (+0.38%), followed by the allocation to government/ swaps and securitized securities (0.16% and 0.10% respectively). Emerging market debt detracted value (-0.07%).

Agency MBS outperformed duration-neutral US Treasuries by 64bps over the quarter. The sector benefitted from low volatility and demand from foreign investors and domestic and commercial banks looking for yield. GSAM believes collateralized loan obligations and asset backed securities offer attractive spreads with strong credit protection and remain among the most compelling sectors in securitized products.

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Investment grade corporate spreads finished the quarter 134bps over sovereigns. The Fund's modest overweight reflects GSAM view that spreads could potentially drift wider in this late stage of the credit cycle. GSAM's are mindful of weakness arising from slowly deteriorating fundamentals as economic and political ramifications of Brexit begin to emerge. However, any widening of spreads is expected to be moderate given accommodative central banks programs in Europe and the UK.

Compliance

The Fund complied with its investment mandate during the month.