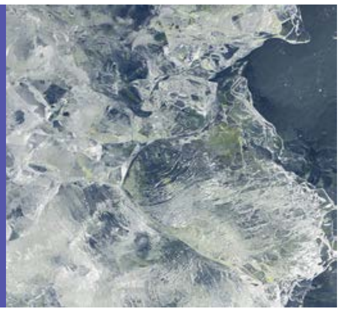
NIKKO AM GLOBAL BOND FUND

Monthly Fact Sheet 30 April 2017



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

Bloomberg Barclays 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
0.50%	1.49%	0.17%	2.67%

2 years (pa)	3 years (pa)	5 years (pa)	Inception (pa)*
3.99%	5.21%		5.61%

* December 2013

Asset allocation

Credit quality rating	Fund
AAA	38.1%
AA+, AA. AA-	13.5%
A+, A, A-	32.3%
BBB	15.9%
BB	0.2%

Sector	Fund	Index
Governments	37.3%	50.9%
Agency	7.7%	9.1%
Credit	19.8%	21.0%
Collateralised & MBS	35.7%	12.7%
Emerging market debt	2.6%	6.3%
Cash, derivatives, other	-3.1%	0.0%

Duration and yield

Duration	Fund 6.57 years versus benchmark 6.80 years
Yield to Maturity	Fund 3.24% versus benchmark 2.93%

Fund commentary

The fund underperformed its benchmark over the month of April. Duration strategy was the main detractor (-7bps) with cross-sector allocation a small detractor (2bps). Stock selection within the government sector and corporate sector added value, 3bps and 2bps respectively.

Market commentary

Yields in major **government bond** markets declined in April, with US Treasuries outperforming sovereign bonds in the UK, Germany and Japan. Yields on the 10-year US government bond fluctuated intra-month, reaching a 2017 low of 2.18% on receding inflation expectations, but then rising on positive economic data including strong existing home sales. In Europe, the yield on the 10-year German government bond reached its lowest level this year ahead of the first round of voting in the French presidential election, and rose following the base case outcome to end the month relatively unchanged. The equivalent maturity French, Spanish and Italian government bond yields declined by 13bps, 2bps and 3bps, respectively, to 0.84%, 1.63% and 2.27%. The fund remains underweight US rates on the premise that the market is underpricing the pace of monetary tightening, particularly given strength in the labour market.

The Fed kept policy unchanged at its May meeting and appears to be looking through recent weakness in economic data, which it described as reflecting "transitory factors." Supportive financial conditions will allow further rate hikes in the US this year. Meanwhile, GSAM expect the ECB and Bank of Japan (BoJ) to maintain low policy rates amid a weak core inflation backdrop, in part driven by low wage growth. The fund is neutral European and Japanese rates.

The fund is overweight rates in Australia and Europe versus the US based on divergent monetary policy outlooks. Near-term monetary tightening in Australia is not expected, due to low inflation and a lack of wage growth despite modest improvements in the labor market. In contrast, labor market strength in the US is expected to support wage inflation and consumption-led growth, thereby warranting monetary tightening. The fund is also underweight long-end UK rates versus European and Swedish rates. GSAM expect UK assets to weaken amid uncertain Brexit negotiations, while central banks in Europe and Sweden to maintain accommodative monetary policy.

Agency mortgage-backed securities (MBS) outperformed duration-neutral Treasuries by 2bps in April, supported by low interest rate volatility and increased demand from domestic commercial banks. Within agency MBS, Ginnie Mae mortgages underperformed conventional mortgages due to weak overseas demand. Federal Family Education Loan Program (FFELP) ABS spreads have tightened since the start of the year, benefiting from reduced uncertainty as rating agencies concluded their rating reviews of FFELP ABS securities. Moody's and Fitch respectively downgraded 7% and 21% of previously AAA-rated bonds to below investment grade.

Investment grade **corporate credit** strengthened modestly in April, with spreads on the Bloomberg Barclays Global Aggregate Corporates index tightening by 3bps to 117bps over sovereigns. Regionally, the euro area outperformed, with spreads on the Bloomberg Barclays Euro Aggregate Corporate index tightening by 7bps to 111bps over sovereigns. Factors supporting investment grade credit include improving corporate profit margins and a favorable global growth outlook. That being said, GSAM remain cautious due to stretched valuations, and credit-negative corporate behaviors such as increased leverage and share buybacks. GSAM are also alert to policy challenges in the US and political uncertainties in Europe and the UK. The fund is overweight US dollar-denominated credits, due to a positive near-term US growth outlook. The fund is underweight euro-denominated credits, in part due to excessive valuations stemming from the ECB's asset-buying program. Among sectors, GSAM see value in US banks, which may benefit from an unwind of regulations and rising US rates. For similar reasons the fund is overweight life insurance. GSAM are also constructive on Pipelines, which stand to benefit from a pick-up in US activity, while the fund is underweight the electric and telecom industries.