

## Nikko AM Wholesale Global Bond Fund

### Fund manager

Goldman Sachs Asset Management Australia Pty Ltd – via Nikko Asset Management New Zealand Limited.

Nikko AM is Asia's premier global asset manager. In New Zealand we actively manage NZ\$4 billion of investments for a diverse group of clients, including superannuation schemes, charitable trusts, KiwiSaver scheme providers, corporations and local government along 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).

Nikko AM utilise Goldman Sachs Asset Management Australia Pty Ltd (GSAM) for the management of global fixed interest 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 interest assets in June 2012.

### Fund launch

December 2007 – a similar portfolio has been operated by Nikko AM since March 2002.

### Investment objective

Over a rolling three year period, to target a return which exceeds the benchmark by 1% per annum, before fees.

### Benchmark

Barclays Capital Global Aggregate Index 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 Investor Rate. Information is provided to the IRD and unit holders on an annual basis.

### Investment 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.

### Distributions

At any date for any period fixed by the Manager

### Hedging policy

Assets are 100% hedged into NZD

### Management fees and other charges

Investment management fees will be negotiated separately with each investor and invoiced outside the Fund.

All Fund statutory and operating costs will be met directly by the Manager.

### Buy/sell spread

Nil

### Trustee

Public Trust

### Custodian

Public Trust as legal custodian, BNP Paribas Fund Services Australasia Pty Limited delegated as functional custodian.

#### Selected investors only

Participation in the Fund is limited to persons or entities who are New Zealand resident, and:

(a) whose principal business is the investment of money; or

(b) who, in the ordinary course of and for the purposes of their business, habitually invest money;

and, consequently (or for other reasons) do not constitute "the public" for the purposes of the Securities Act 1978 (**Exempt Person**). Nikko AM will not therefore be required to produce a registered prospectus or an investment statement in relation to the proposed investment (such documents otherwise being required were this offer to be made to persons or entities that are not Exempt Persons), and such documents will not be produced accordingly. Investors in the Fund will be required to acknowledge their status as an Exempt Person as part of their subscription in the Fund. Investors in the Fund will also be required to undertake to Nikko AM that any transfers of interests in the Fund will only be to Exempt Persons.

This document is issued by Nikko Asset Management New Zealand Limited (Company No. 606057, FSP No. FSP22562) investment manager and promoter of the products included in this document. This information is for the use of researchers, financial advisers and wholesale clients. This material has been prepared without taking into account a potential investor's objectives, financial situation or needs and is not intended to constitute personal financial advice, and must not be relied on as such. Recipients of this document, who are not habitual investors, or their duly appointed agent, should consult a qualified and appropriately Authorised Financial Adviser and the current Investment Statement, Prospectus or Information Memorandum. Applications to invest will only be accepted if made on an application form attached to that current Investment Statement or Information Memorandum. Past performance is not a guarantee of future performance. While we believe the information contained in this presentation is correct at the date of presentation, no warranty of accuracy or reliability is given and no responsibility is accepted for errors or omissions including where provided by a third party.

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

**Nikko AM Wholesale Global Bond Fund**

Performance (NZD gross returns)

	Fund %	Benchmark %	Excess %
1 month	0.68	1.12	-0.44
<b>3 months</b>	<b>1.93</b>	<b>2.87</b>	<b>-0.95</b>
6 months	4.01	4.56	-0.55
<b>1 year</b>	<b>4.99</b>	<b>5.33</b>	<b>-0.34</b>
2 years (pa)	7.25	8.02	-0.77
<b>3 years (pa)</b>	<b>6.54</b>	<b>6.70</b>	<b>-0.17</b>
5 years (pa)	7.10	7.35	-0.25
<b>10 years (pa)</b>	<b>7.47</b>	<b>7.73</b>	<b>-0.27</b>

Fund size \$269 million

Asset allocation

Credit quality rating	
AAA	31.3
AA+, AA, AA-	11.2
A+, A, A-	30.7
BBB	20.2
Unrated	0.5
Derivatives & liquidity	6.1

Sector allocation	Fund	Index
Governments	32.0	52.0
Agency	4.2	9.3
Credit	27.7	20.2
Collateralised & MBS	25.2	12.5
Emerging market debt	4.8	6.0
Cash, derivatives, other	6.1	0.0
Number of holdings	463	17,062

Duration and yield

Duration	Fund 6.44 years	vs benchmark 6.45 years
Yield to Maturity	Fund 4.02%	vs benchmark 3.57%

Commentary

The European Central Bank (ECB) increased its quantitative easing program at its March meeting. Further easing included a cut to the deposit rate by 10bps, \$20bn in additional monthly purchases, as well as the purchasing of non-financial investment grade corporate bonds to begin at the end of the second quarter. The Fund is neutral in European rates.

While the expectation is for global growth and the general outlook for risk assets to improve in the longer term, markets remain challenged in the near term, with factors such as the potential impacts of low oil prices and weakness in the US manufacturing

sector both representing risks and creating opportunities in the market. The Fund is modestly long credit.

The position has been moved from flat to short US rates given positive inflation, labour market and growth data. The position is further underpinned by recent easing in financial conditions in part due to some recovery in oil prices.

The Fund underperformed its benchmark over the month. Country allocation and cross sector allocation were the main detractors of performance.

**Government bond** yields tightened across developed markets in February. In the US, the benchmark 10-year yield closed the month 19bps lower at 1.73%. Rates on UK government bonds followed this downward trend, ending the month at 1.34%. In Japan, the 10-year yield fell below zero for the first time to -0.06% after the Bank of Japan surprisingly adopted negative interest rates. In Europe, German 10-year yields fell 21bps ending the month at 0.11%. European peripheral spreads widened over the period with Spanish and Italian 10-year yields widening slightly by 2bps and 1bp, respectively.

**Agency mortgage-backed securities (MBS)** underperformed duration-neutral US Treasuries by 14bps in February, but outperformed other spread assets such as investment grade corporates fueled by a flight-to-quality by investors amid fears of slowing global growth. Agency MBS have benefitted from the general risk-off market. The Fund is underweight agency MBS as GSAM expect continued increased supply and deteriorating financing conditions to further weigh on the sector. GSAM remain positive on AAA-rated **CMBS** and CLOs. GSAM believe these securities offer attractive exposure to credit spreads with limited exposure to energy and metals & mining, though recent widening has led to reduction in positions. GSAM are also positive on non-agency residential mortgage-backed securities (RMBS). GSAM expect non-agency RMBS fundamentals will continue to improve and that non-agency RMBS spreads will exhibit lower correlation to macro-driven spread movements in other sectors.

**Investment grade corporate credit** spreads widened over February, with spreads on the Barclays Global Aggregate Corporates Index widening 5bps to 188bps over sovereigns. US corporates weakened, with spreads on the Barclays US Aggregate Corporates Index widening 4bps to 197bps over sovereigns. European corporates underperformed US corporates, with spreads on the Barclays Euro Aggregate Corporates Index widening 6bps to 156bps over sovereigns. Gross new issuance for the month amounted to roughly \$97bn in the US, with industrial issuers representing the largest portion of issuance. European issuance was \$52bn for the month, higher than the previous month.

GSAM expect global growth and the general outlook for risk assets to improve in the longer term, markets remain challenged in the near term, with factors such as the potential impacts of lower oil prices and weakness in the US manufacturing sector both representing risks and creating opportunities in the market. GSAM believe present conditions merit a cautious approach, wherein tactical positioning and security selection will be key. Within the credit quality spectrum, GSAM is biased to triple-B rated credit as well as a preference for the intermediate part of the corporate term structure. The Fund holds an overweight positions in banking, consumer products and pipelines (mainly as a result of single-security, bottom-up views rather than thematic sector-level decisions), while underweight the media non-cable, energy and property & casualty insurance industries.