

### 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\$4.8 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	0.70	0.60	0.10
<b>3 months</b>	<b>2.60</b>	<b>1.93</b>	<b>0.67</b>
6 months	4.58	4.85	-0.28
<b>1 year</b>	<b>7.11</b>	<b>6.80</b>	<b>0.31</b>
2 years (pa)	7.22	7.71	-0.49
<b>3 years (pa)</b>	<b>7.12</b>	<b>7.15</b>	<b>-0.02</b>
5 years (pa)	7.21	7.25	-0.05
<b>10 years (pa)</b>	<b>7.81</b>	<b>7.98</b>	<b>-0.16</b>

Fund size \$277.6 million

Asset allocation

Credit quality rating	
AAA	36.2
AA+, AA, AA-	13.5
A+, A, A-	30.4
BBB	19.6
BB	0.3
Unrated	0.0

Sector allocation	Fund	Index
Governments	35.1	51.9
Agency	8.6	9.3
Credit	24.3	20.7
Collateralised & MBS	26.1	12.0
Emerging market debt	4.6	6.1
Cash, derivatives, other	1.3	0.0
Number of holdings	449	17,342

Duration and yield

Duration	Fund 5.7 years	vs benchmark 6.6 years
Yield to Maturity	Fund 3.7%	vs benchmark 3.3%

Commentary

The Fund outperformed the index over the month. Country allocation was the main contributor (+0.12%) followed by securitised assets (0.05%). Government/swaps and corporate bonds were small detractors (-0.03% and -0.02% respectively).

**Government bonds** rallied broadly across developed markets over the month of May. In the US, the benchmark 10-year yield closed the month 2bps higher at 1.85%. Rates on UK government bonds rallied over the period, ending the month at 1.43%, down 17bps. In Japan, the 10-year yield went further negative to close at -0.11%, down 3bps. In Europe, German 10-year yields decreased 13bps to end the month at 0.14%. European peripheral spreads also widened over the period, with Spanish and Italian 10-year yields widening by 12bps and 13bps, respectively.

The Fund's short position in US rates was maintained over the month. The hawkish Fed statement in May led to tightening US financial conditions and a rally in the US dollar. Weaker than expected payrolls significantly reduced market probabilities for a rate hike in June or July. In Europe, the ECB will start its corporate sector asset purchase program in June, which will be carried out by six national central banks, with the ECB coordinating the purchases and full risk-sharing. The Fund remained neutral in European rates in May. News that Prime Minister of Japan Shinzo Abe will postpone the consumption tax hike scheduled for next year had little impact on Japanese government bonds. The Fund maintained its short position in Japan.

**Agency mortgage-backed securities (MBS)** outperformed duration-neutral US Treasuries by 17bps in May. March TIC (Treasury International Capital) data, released in mid-May, show that overseas investors added \$15.4bn in agency MBS over the month, led by Japan (\$11.7bn). Additionally, US commercial bank demand for agency MBS has also picked up in the second quarter, with banks adding over \$20bn in mortgage securities on a net basis. This follows a first quarter where banks only added \$8bn in agency MBS.

The Fund remains underweight agency MBS as GSAM expect bank demand to be notably weaker in the second and third quarters similar to past years, while a stronger housing market and summer seasonal factors should lead to an increase in net mortgage supply. The Fund remains underweight 15 year mortgages, as valuations continue to appear full relative to 30 year mortgages. GSAM believe senior collateralized loan obligations (CLOs) and Federal Family Education Loan Program (FFELP) student loan asset-backed securities (ABS) offer attractive spread with strong credit protection and remain among the most compelling sectors in securitized products. GSAM are positive on residential mortgage credit, particularly legacy non-agency MBS, which continue to benefit from negative net supply and show improving collateral performance.

Despite May being one of the highest new issuance months, **investment grade corporates** widened only modestly, highlighting the strength of the market to absorb the large issuance. Spreads on the Barclays Global Aggregate Corporates Index widened 3bps to 146bps over sovereigns. US corporates also weakened, with spreads on the Barclays US Aggregate Corporates Index widening 3bps to 149bps over sovereigns. European corporates underperformed US corporates, with spreads on the Barclays Euro Aggregate Corporates Index widening 6bps to 128bps over sovereigns. Gross new issuance for the month amounted to roughly \$152bn in the US, which is the highest monthly issuance year-to-date. European markets also saw high issuance of around \$77bn, mainly led by non-financials, an impact of the ECB's Corporate Sector Purchase Program.

GSAM have a modestly positive to flat view on credit. There appears to be reduced chances of significant near-term weakness in credit, but GSAM remain cautious in exposure given we are in the later stages of the credit cycle. Within the credit quality spectrum, the Fund maintains a down-in-quality bias, favouring triple-B rated credit, as well as a preference for the intermediate part of the corporate term structure. GSAM see value in consumer products, pipelines and tobacco, mainly as a result of single-security, bottom-up views rather than thematic sector-level decisions. The Fund is also overweight banks as GSAM are becoming more positive on the sector, particularly in the US. The Fund is underweight the energy, insurance and chemicals industries.

Compliance

The Fund complied with its investment mandate during the month.