Fund Fact Sheet 31 August 2016

Nikko AM NZ Wholesale Investment Scheme

Nikko AM Wholesale Global Bond Fund

Fund manager

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

In New Zealand we actively manage around NZ$5 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 NZ 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 AUD 1,126 billion in assets under management. GSAM's Global Fixed Income Team manages AUD451 billion of global fixed income assets.

Fund launch

October 2008

Investment objective

To construct a portfolio of authorised investments that outperform the Fund's benchmark return by 1.0% per annum over a rolling three year period before fees.

Benchmark

Barclays Capital Global Aggregate Index hedged into NZD

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%.

Distributions

Generally on calendar quarters, or at any date for any period determined by the Manager.

Structure and taxation

The Fund vehicle is a Portfolio Investment Entity (PIE) which is priced daily. Investors elect their own Portfolio Investor Rate. Information is provided to the IR and investors 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.

Management fees

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.

Performance (NZD gross returns)

	Fund	Benchmark	Excess
1 month	0.35%	0.10%	0.25%
3 months	3.08%	2.86%	0.22%
6 months	5.76%	4.84%	0.92%
1 year	10.00%	9.62%	0.38%
2 years (pa)	7.50%	7.80%	-0.30%
3 years (pa)	8.52%	8.45%	0.07%
5 years (pa)	7.41%	7.27%	0.15%
10 years (pa)	7.89%	7.95%	-0.06%

Fund size

NZ$258million

Asset allocation

Credit quality rating	
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 to Maturity	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. 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 providing a gross return of 0.35%, which was well ahead of the benchmark return of 0.10%.

Compliance

The Fund complied with its investment mandate during the month.