

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

Bloomberg Barclays Global Aggregate Index (100% 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 Prescribed 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.

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Performance (NZD gross returns)

	Fund	Benchmark	Excess
1 month	0.98%	0.96%	0.03%
3 months	1.31%	1.12%	0.19%
6 months	-0.65%	-1.19%	0.53%
1 year	5.07%	3.59%	1.48%
2 years (pa)	5.03%	4.46%	0.57%
3 years (pa)	6.52%	6.52%	-0.01%
5 years (pa)	6.32%	6.14%	0.18%
10 years (pa)	7.40%	7.40%	0.00%

Fund size

NZ\$246million

Asset allocation

Credit quality rating	
AAA	35.5%
AA+, AA, AA-	19.4%
A+, A, A-	33.0%
BBB	11.9%
BB	0.2%

Sector	Fund	Index
Governments	42.7%	51.1%
Agency	4.6%	9.3%
Credit	16.6%	21.1%
Collateralised & MBS	31.8%	12.3%
Emerging market debt	2.8%	6.2%
Cash, derivatives, other	1.5%	0.0%

Duration and yield

Duration	Fund 7.01 years versus benchmark 6.77 years
Yield to Maturity	Fund 3.21% versus benchmark 3.03%

Commentary

The **Fund** outperformed over the month. Value was added from country allocation (+2bps) and sector allocation (+3bps). Stock selection within the corporate bond sector and government/swaps sector added value (3bps and 2 bps respectively). Detractors from performance were stock selection within securitized assets (-3bps) and duration strategy (-2bps).

US data continued to paint a healthy economic picture over the month and February consumer confidence reached a fifteen year high. Strong US economic data and hawkish comments from US Federal Reserve (Fed) presidents raised expectations for a rate hike at the March meeting. GSAM is expecting three rate hikes this year and see increased discussion around a reduction in the Fed's holdings of agency mortgage backed securities (MBS).

The Fund is positioned for dollar strength and underweight US rates and agency MBS. Improved global growth and a recovery in commodity prices supported risk assets in February.

Agency MBS performed in line with duration-neutral US Treasuries in February. Increased demand for shorter duration assets and negative net issuance led to spread compression in agency hybrid adjustable-rate mortgages (ARMs) over the month. Agency fixed-rate MBS spreads were broadly unchanged over the month, while spreads on asset-backed securities (ABS) and collateralized loan obligations (CLOs) are near multi-year tight levels, as both sectors continue to be in demand from investors seeking high-quality and short-duration assets

The Fund is underweight agency MBS, as GSAM expect increased interest rate volatility and elevated market concern about the Fed tapering agency MBS reinvestments to drive spreads wider. Within the sector, and predominantly in Ginnie Mae securities, the Fund is underweight lower coupon securities—which face headwinds from reduced demand from the Fed, US commercial banks and overseas investors—and overweight higher coupons. Federal Family Education Loan Program (FFELP) ABS offer attractive spread with strong credit protection and remain among the most compelling sectors in securitized products. GSAM are also positive on residential mortgage credit, particularly legacy non-agency MBS, which continue to benefit from negative net supply and show improving collateral performance.

Spreads tightened across US, UK and European **investment grade** markets and US high yield corporate credit posted positive total returns.

In Europe, credit spreads widened with uncertainty around the upcoming Dutch and French elections clouded marginal improvements in economic data. GSAM see potential relative-value opportunities arising from politically-driven volatility in rate and credit markets. The Fund is overweight French rates versus European investment grade credit, as GSAM expect some weakness to spill over from sovereign markets to currency and credit markets.

Performance divergence between the regions partly reflects macroeconomic differences, with improving data in the US and rising consumer confidence contrasting with growing political uncertainties weighing on investor sentiment in Europe. Spreads on the Bloomberg Barclays Sterling Corporate index remained flat at 139bps.

Compliance

The Fund complied with its investment mandate during the month.