HUNTER GLOBAL FIXED INTEREST FUND

HUNTER INVESTMENT FUNDS

Report & Commentary

31 May 2018

Fund Information	31 May 2018		
Fund Size	$638 million		
Fund Type	PIE		
Investment management	PIMCO		
Benchmark	Bloomberg Barclays Global Aggregate Index - $NZ hedged		
Performance (gross)	**1 month**	**3 months**	**12 months**
Portfolio (%)	+0.40%	+0.88%	+3.10%
Benchmark (%)	+0.39%	+0.87%	+1.80%
Alpha (%)	*+0.01%*	*+0.01%*	*+1.30%*

The performance in this fact sheet is gross of fees and tax. Investors should also refer to the quarterly Fund Update, which is available on hunterinvestments.co.nz and business.govt.nz/disclose.

Performance update

The Hunter Global Fixed Interest Fund returned +0.40% for the month of May, marginally ahead of the benchmark return of +0.39% (being the Bloomberg Barclays Global Aggregate Index - $NZ hedged).

The Fund benefited from PIMCO's underweight to Italian duration and an overweight to intermediate US duration as political turmoil in Europe saw core interest rates rally at the expense of riskier assets. Conversely, an underweight to U.K. duration detracted from performance as yields fell across all tenors.

An underweight to investment grade corporates also added value, as credit spreads generally widened, while holdings in the high yield sector detracted.

Performance of currency strategies was mixed in May, a short EUR position impacting positively while emerging market exposures detracted as the US dollar rallied.

Investment markets

Geopolitical developments continued to drive markets with the White House announcing that it will move forward with a number of actions including investment restrictions on Chinese investments in the US, as well as $50bn tariffs on Chinese goods. The administration also announced that it plans to move forward with steel and aluminium tariffs on the EU. Steel and aluminium tariffs are also being imposed on Canada and Mexico

Meanwhile, the on again, off again meeting between Kim Jong-un and Donald Trump continued to draw market attention and US also exited the Iran Accord raising oil supply concerns again.

Despite all this, Italian politics had the biggest impact on markets with a sharp shift towards anti-establishment Euro Sceptic parties raising fears of an EMU exit. Italian 2-year bond yields rose 1.8% in a single day. Similarly, Spain is also in political turmoil with the Prime Minister to face a no-confidence vote in June.

All this saw a "flight to quality" and away from "risk "assets.

Portfolio positioning

The Fund continues to remain defensively positioned, underweight duration overall (5.3 years vs index at 7.0 years).

Within regions, the Fund holds an overweight to intermediate U.S. duration as U.S. rates offer an attractive pick-up versus other developed market interest rates.

PIMCO has reduced the underweight position to European duration given the recent re-pricing and are now near neutral in terms of total exposure but is maintaining an underweight to UK duration. Positions are concentrated in the belly of the curve where yields are relatively more attractive.

The Fund is also underweight duration in Japan.

The Fund has a modest exposure to US TIPS to protect against any inflation surprises.

The Fund continues to have exposure to a diversified basket of high yielding emerging market currencies (including RUB, CNY, MXN and TRY) that PIMCO believes will outperform the USD.

In the credit risk sector, the Fund remains underweight investment-grade corporate credit preferring the non-agency mortgage sector due to their attractive yields, downside protection and the outlook for price appreciation in the US housing market.

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Hunter Global Fixed Interest Fund
Investment Portfolio Characteristics

HUNTER INVESTMENT FUNDS

Investment Statistics	
Effective Duration	5.3
Benchmark Duration	7.0
Average Maturity	7.6
Average Coupon	2.3
Average Quality	AA-
Total Carry	5.0

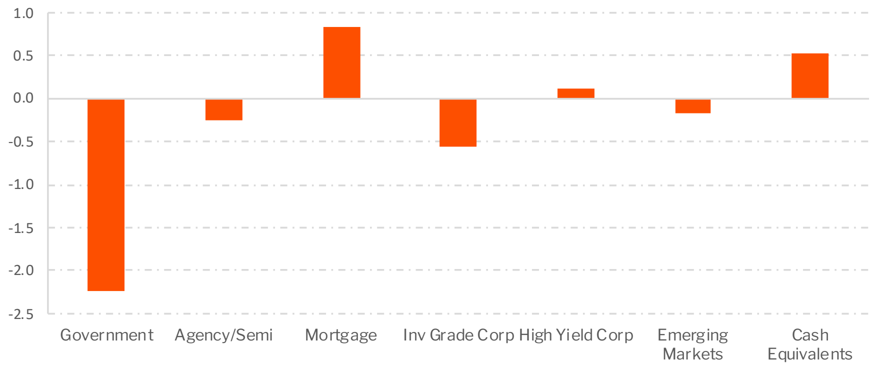
Quality Breakdown		
Market Value % Portfolio		Market Value % Benchmark
64.4	AAA	39.4
5.8	AA	16.1
12.2	A	29.6
10.1	BBB	14.9
7.5	Sub Inv Grade	0.0
100	Total	100

Curve Exposure				
Duration Weighted Exposure			Duration Weighted Exposure	
% Portfolio	% Benchmark		Years Portfolio	Years Benchmark
10.3	0.1	0 - 1 years	0.5	0.0
-3.8	6.7	1 - 3 years	-0.2	0.5
55.8	13.0	3 - 5 years	3.0	0.9
16.3	31.7	5-10 years	0.9	2.2
21.4	48.5	10+ years	1.1	3.4
100	100	Total	5.3	7.0

Regional Breakdown by currency of settlement)				
Duration Weighted Exposure			Duration Weighted Exposure	
% Portfolio	% Benchmark		Years Portfolio	Years Benchmark
4.1	1.1	Australia/NZ	0.2	0.1
4.8	22.1	Japan	0.3	1.6
30.1	25.1	Europe - EMU	1.6	1.8
7.1	1.6	Europe - Non EMU	0.4	0.1
0.0	8.0	United Kingdom	0.0	0.6
54.2	39.7	North America	2.9	2.8
2.5	1.0	Emerging Markets	0.1	0.1
-2.8	1.5	Other	-0.1	0.1
100	100	Total	5.3	7.0

Sector Breakdown				
Duration Weighted Exposure			Duration Weighted Exposure	
% Portfolio	% Benchmark		Years Portfolio	Years Benchmark
36.0	59.0	Government	1.9	4.2
6.2	8.2	Agency/Semi	0.3	0.6
30.0	10.7	Mortgage	1.6	0.8
11.7	16.6	Inv Grade Corp	0.6	1.2
2.1	0.0	High Yield Corp	0.1	0.0
4.2	5.5	Emerging Markets	0.2	0.4
9.9	0.0	Cash Equivalents	0.5	0.0
100	100	Total	5.3	7.0

Sector Exposure
Portfolio vs. Benchmark (DWE Years)



Regional Breakdown Variance
Portfolio vs. Benchmark (DWE Years)