



GLOBAL BOND FUND

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2017**

Presented by Smartshares Limited, Manager of the Global Bond Fund

GLOBAL BOND FUND

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GLOBAL BOND FUND

DIRECTORY

THE MANAGER

Smartshares Limited
Level 1, NZX Centre
11 Cable Street, Wellington 6140
New Zealand

THE SUPERVISOR

Public Trust
Level 5, 40-42 Queens Drive
Lower Hutt 5010, Wellington
New Zealand

This is also the address of the registered office.

PRINCIPAL OFFICE OF THE MANAGER

Level 7, Zurich House
21 Queen Street, Auckland Central
Auckland 1010
New Zealand

THE INVESTMENT MANAGER

PIMCO Australia Pty Limited
Level 19, 363 George Street
Sydney, New South Wales 2000
Australia

DIRECTORS OF THE MANAGER

Bevan K. Miller
Timothy O. Bennett (resigned 30 December 2016)
Guy R. Elliffe
A. John Williams
Paul J. Baldwin (appointed 30 December 2016)

SOLICITOR

Buddle Findlay
Level 17, State Insurance Tower
1 Willis Street, Wellington 6140
New Zealand

AUDITOR

KPMG
10 Customhouse Quay
PO Box 996, Wellington 6140
New Zealand

REGISTRAR

Link Market Services Limited

INVESTMENT ADMINISTRATOR & CUSTODIAN

BNP Paribas Fund Services Australasia Pty Ltd, New Zealand branch

CORRESPONDENCE

All correspondence and enquiries to the Manager about the Fund should be addressed to the Manager, Smartshares Limited, at the above address.

GLOBAL BOND FUND

Smartshares Limited (the 'Manager') and Public Trust (the 'Supervisor') are parties to a master trust deed dated 24 June 2014 as amended and restated on 9 September 2016 (the 'Trust Deed'). Under a Deed of Retirement and Appointment dated 6 September 2016, Trustees Executors Limited retired as the trustee and Public Trust was appointed as the Supervisor. The Trust Deed sets out the terms and conditions on which units in the funds within the Smartshares Exchange Traded Funds are offered for subscription, whether to the public or otherwise.

The Trust Deed provides that each fund is to be established by the Manager and the Supervisor entering into an establishment deed setting out the specific terms and conditions relating to that fund.

The Global Bond Fund (the 'Fund') was created by an establishment deed dated 15 October 2015 as amended and restated on 9 September 2016 between the Manager and the Supervisor.

STATEMENT BY THE MANAGER

In our opinion, the accompanying financial statements and notes are drawn up in accordance with Generally Accepted Accounting Practice in New Zealand ('NZ GAAP'), and fairly present the financial position of the Fund as at 31 March 2017, and the results of its financial performance and cash flows for the year ended 31 March 2017 in accordance with the requirement of the Trust Deed.

It is believed that there are no circumstances that may materially and adversely affect any interest of the unitholders in the assets other than those already disclosed in this report.

For and on behalf of the Manager:
Smartshares Limited



.....
Director



.....
Director

This statement was approved for signing at a meeting of the Directors on 25 May 2017.

GLOBAL BOND FUND

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2017

		Year Ended 31 March 2017 \$'000	Period Ended 31 March 2016 \$'000
	Note		
INCOME			
Dividend income		2	-
Interest income		2,427	1,408
Net changes in fair value of financial assets and financial liabilities at fair value through profit or loss		<u>5,253</u>	<u>4,571</u>
Total income		<u>7,682</u>	<u>5,979</u>
EXPENSES			
Management fees expense	10	(699)	(252)
Foreign exchange loss		(832)	(429)
Interest expense		(25)	(2)
Miscellaneous expenses		<u>(28)</u>	<u>(4)</u>
Total expenses		<u>(1,584)</u>	<u>(687)</u>
Profit before tax		6,098	5,292
Income tax expense	1	<u>(1,708)</u>	<u>(1,482)</u>
Profit after tax		4,390	3,810
Other comprehensive income		<u>-</u>	<u>-</u>
Total comprehensive income		<u>4,390</u>	<u>3,810</u>
EARNINGS PER UNIT			
Basic and diluted earnings per unit (cents per unit)	6	<u>10.51</u>	<u>9.49</u>

The accompanying notes form part of and should be read in conjunction with these financial statements.

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STATEMENT OF CHANGES IN UNITHOLDERS' FUNDS FOR THE YEAR ENDED 31 MARCH 2017

		Year Ended 31 March 2017 \$'000	Period Ended 31 March 2016 \$'000
	Note		
Unitholders' funds at the beginning of the year/period		123,222	-
Total comprehensive income for the year/period		<u>4,390</u>	<u>3,810</u>
Subscriptions from unitholders	8	5,782	120,017
Distributions to unitholders	7	<u>(2,903)</u>	<u>(605)</u>
		<u>2,879</u>	<u>119,412</u>
Unitholders' funds at the end of the year/period		<u><u>130,491</u></u>	<u><u>123,222</u></u>

The accompanying notes form part of and should be read in conjunction with these financial statements.

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STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2017

		As At 31 March 2017 \$'000	As At 31 March 2016 \$'000
	Note		
ASSETS			
Cash at banks		833	2,997
Balances due from brokers	5	4,548	1,998
Receivables		981	833
Investment securities held at fair value through profit or loss	2	133,091	124,726
Derivatives held for trading	3	2,718	9,477
Unsettled sales		<u>1,371</u>	<u>-</u>
TOTAL ASSETS		<u>143,542</u>	<u>140,031</u>
LIABILITIES			
Bank overdraft		(63)	-
Management fees payable	10	(6)	(56)
Taxation payable		(229)	(1,063)
Derivatives held for trading	3	(6,639)	(7,743)
Distribution payable to unitholders	7	-	(605)
Funds held for unit purchases		(83)	(10)
Unsettled purchases		<u>(6,031)</u>	<u>(7,332)</u>
TOTAL LIABILITIES		<u>(13,051)</u>	<u>(16,809)</u>
UNITHOLDERS' FUNDS		<u>130,491</u>	<u>123,222</u>
TOTAL LIABILITIES AND UNITHOLDERS' FUNDS		<u>143,542</u>	<u>140,031</u>

For and on behalf of the Manager, Smartshares Limited, who authorised the issue of the financial statements on 25 May 2017.



B Miller
Chairman
Smartshares Limited



G Elliffe
Director
Smartshares Limited

The accompanying notes form part of and should be read in conjunction with these financial statements.

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STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 MARCH 2017

	Year Ended 31 March 2017 \$'000	Period Ended 31 March 2016 \$'000
CASH FLOWS FROM OPERATING ACTIVITIES		
<i>Cash was provided from:</i>		
Dividend income received	2	-
Interest income received	2,272	566
<i>Cash was applied to:</i>		
Management fees paid	(749)	(196)
Taxation paid	(2,535)	(410)
Interest paid	(25)	(2)
Miscellaneous expenses paid	(28)	(4)
Net cash flows from operating activities	(1,063)	(46)
CASH FLOWS FROM INVESTING ACTIVITIES		
<i>Cash was provided from:</i>		
Sale of investments	277,515	120,561
<i>Cash was applied to:</i>		
Purchase of investments	(278,501)	(235,325)
Balance due to broker movement	(2,550)	(1,998)
Net cash flows from investing activities	(3,536)	(116,762)
CASH FLOWS FROM FINANCING ACTIVITIES		
<i>Cash was provided from:</i>		
Subscriptions received from unitholders	5,782	120,027
<i>Cash was applied to:</i>		
Distributions paid to unitholders	(3,508)	-
Net cash flows from financing activities	2,274	120,027
Net (decrease)/increase in cash and cash equivalents	(2,325)	3,219
Cash and cash equivalents at the beginning of the year/period	2,997	-
Effect of exchange rate fluctuations on cash and cash equivalents	98	(222)
Cash and cash equivalents at the end of the year/period	770	2,997
Reconciliation of profit after tax to net cash flows from operating activities		
Profit after tax	4,390	3,810
Net changes in fair value of financial assets and financial liabilities at fair value through profit or loss	(5,253)	(4,571)
Foreign exchange loss	832	429
(Decrease)/increase in taxation payable	(834)	1,063
(Decrease)/increase in payables	(50)	56
Increase in receivables	(148)	(833)
Net cash flows from operating activities	(1,063)	(46)

The accompanying notes form part of and should be read in conjunction with these financial statements.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017

GENERAL INFORMATION

The Global Bond Fund (the 'Fund') is a for-profit fund registered in New Zealand and established under the Financial Markets Conduct Act 2013 ('FMC Act 2013'). It is offered under a registered managed investment scheme known as the Smartshares Exchange Traded Funds. Smartshares Limited, the Manager of the Fund is a FMC reporting entity for the purpose of the FMC Act 2013.

The Fund is governed by the Trust Deed dated 24 June 2014 as amended and restated on 9 September 2016 between the Manager and the Supervisor. The Fund was established on 15 October 2015 and commenced operations on 9 November 2015.

The Fund changed its name from Global Bond Trust to Global Bond Fund effective 16 September 2016.

The Fund's units are quoted on the NZX Main Board. The Fund is an investment fund that aims to outperform the Barclays Global Aggregate Index (the 'Index') by 1% per annum over a rolling three-year period, hedged in NZ dollars. As prescribed by the Trust Deed, the Fund invests in securities of all types represented in the Index and any other investment that is consistent with the objectives of the Fund.

STATEMENT OF ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These accounting policies have been consistently applied to the year/period presented.

Comparative period

These financial statements are for the year ended 31 March 2017. The comparative figures are for the period 9 November 2015 to 31 March 2016. Where necessary, comparative figures have been restated to correspond to the current year classifications.

Basis of preparation

The financial statements of the Fund have been prepared in accordance with the requirements of the FMC Act 2013, Financial Reporting Act 2013, New Zealand equivalents to International Financial Reporting Standards ('NZ IFRS') and International Financial Reporting Standards ('IFRS'). The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities at fair value through profit or loss. The functional currency of this entity is the same as the presentation currency of these financial statements being the New Zealand Dollar ('NZD'), rounded to the nearest thousand.

The preparation of financial statements in conformity with NZ IFRS requires the use of certain critical accounting estimates. It also requires the Smartshares Limited Board of Directors to exercise its judgement in the process of applying the Fund's Statement of Accounting Policies.

Income recognition

Income is recognised and measured at the fair value of the consideration received or receivable to the extent it is probable that the economic benefits will flow to the Fund and the income can be reliably measured. The following specific recognition criteria must also be met before income is recognised:

(a) Interest income

Interest income is recognised as the interest accrues (using the effective interest method, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument) to the net carrying amount of the financial asset.

(b) Changes in fair value of financial assets and financial liabilities

Changes in financial assets and financial liabilities at fair value through profit or loss are calculated as the difference between the fair value at sale, or at year/period end, and the fair value at the previous valuation point or cost. This includes both realised and unrealised gains and losses, but does not include interest income.

Financial assets and financial liabilities at fair value through profit or loss

(a) Classification

The Fund classifies its underlying investments and derivatives as financial assets and financial liabilities at fair value through profit or loss. This category has two sub-categories: financial assets or financial liabilities held for trading; and those held at fair value through profit or loss at inception.

(i) Financial assets and financial liabilities held for trading

Financial instruments held for trading are those acquired or incurred principally for the purposes of selling or repurchasing in the short term. Derivatives are categorised as held for trading. The Fund does not classify any derivatives as hedges in a hedging relationship.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017

(ii) Financial assets designated at fair value through profit or loss

Financial instruments designated at fair value through profit or loss at inception are those that are managed and their performance evaluated on a fair value basis in accordance with the Fund's documented investment strategy. The Fund's policy is for the Manager to evaluate the information about these financial instruments on a fair value basis together with other related financial information. The Manager has determined that investments are designated at fair value through profit or loss.

The Fund does not make short sales in which a borrowed security is sold in anticipation of a decline in the market value of that security, nor does it make use of short sales for arbitrage transactions.

(b) Recognition, derecognition and measurement

Purchases and sales of investments and derivatives are recognised on the trade date - the date on which the Fund commits to purchase or sell the investment or derivatives. Financial assets and financial liabilities designated at fair value through profit or loss are initially recognised at fair value, with transaction costs recognised in profit or loss.

Financial assets and financial liabilities are derecognised when the rights to receive cash flows from the investments have expired or the Fund has transferred substantially all risks and rewards of ownership.

Subsequent to initial recognition, all financial assets and financial liabilities at fair value through profit or loss are measured at fair value. Gains and losses arising from changes in the fair value of the 'financial assets or financial liabilities at fair value through profit or loss' category are presented in the Statement of Comprehensive Income when they arise.

(c) Fair value determination

The fair value of financial instruments traded in active markets (such as trading securities) is based on quoted market prices at the reporting date. The quoted market price used for financial assets and financial liabilities held by the Fund is the last traded price.

For investments with no active markets, fair values are determined using valuation techniques. Such techniques include: using recent arm's length transactions; reference to the current market value of another instrument that is substantially the same; discounted cash flow analysis and option pricing models making as much use of available and supportable market data as possible and keeping judgmental inputs to a minimum.

(d) Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the Statement of Financial Position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Fund and counterparty.

Receivables

Trade receivables and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'receivables'. Receivables are measured at amortised cost using the effective interest method less impairment.

Payables

Trade payables and other payables are recognised when the entity becomes obliged to make future payments resulting from the purchase of goods and services, and are measured at amortised cost.

Balance due from/to brokers

Balance due from/to brokers includes margin cash and cash collateral that are identified in the Statement of Financial Position and not included as a component of cash and cash equivalents.

Foreign currency transactions and balances

Foreign currency transactions are translated into the functional currency (NZD) using the exchange rate prevailing at the dates of the transactions. Foreign currency assets and liabilities are translated into the functional currency using the exchange rate prevailing at the Statement of Financial Position date. Foreign exchange gains and losses arising from translation are included in the Statement of Comprehensive Income.

Translation differences of non-monetary financial assets and financial liabilities held at fair value through profit or loss are recognised in the Statement of Comprehensive Income as part of the net changes in fair value on financial assets and financial liabilities at fair value through profit or loss.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017

Cash and cash equivalents

Cash and cash equivalents are considered to be cash at banks, net of bank overdrafts. Operating activities in the Statement of Cash Flows include all transactions or events that are not investing or financing activities. Investing activities are those activities that relate to the acquisition, holding and disposal of investments and securities not falling within the definition of cash. Financing activities are those activities that relate to cash contributions to and from, or distributions to the unitholders.

Repurchase agreements

Securities subject to repurchase agreements are recognised within the investments in "investment securities held at fair value through profit or loss".

Units

The Fund issues units, which provide the holder with a beneficial interest in the Fund. The units can be put back to the Fund via a basket redemption, in accordance with the redemption rules as defined in the Trust Deed, by delivery to the investor of the cash amount and/or authorised investments that the Manager agrees to accept as consideration for, and determines to have a value equal to the price of the units issued.

The units are issued and redeemed based on the Fund's net asset value per unit at the time of issue or redemption. The Fund's net asset value per unit is calculated by dividing the net assets attributable to the unitholders by the total number of outstanding units. In accordance with the provisions of the Trust Deed investment positions are valued based on the last traded market price for the purpose of determining the net asset value per unit for subscriptions and redemptions.

Distributions to unitholders

Distributions are made up of income received from the investments less expenses paid and allowances for future liabilities. Income from investments held is attributed to unitholders on the basis of the number of units held on the record date of the distribution. To the extent that imputation credits are available, distributions to unitholders will be fully imputed. The record date for the Fund is on the last business day of February, May, August and November in each year. Currently, distributions to unitholders are made on a quarterly basis directly from the Fund within 20 business days of the record date.

Taxation

The Fund is domiciled in New Zealand and is registered as a Portfolio Investment Entity ('PIE').

The Fund is liable for tax at the prevailing company tax rate on taxable interest and gains and losses from its investments in securities outlined in Note 2 after the deduction of management fees and other deductible expenses. With this income, the Fund is able to utilise foreign withholding tax credits to satisfy the tax liability. The Fund pays tax to the extent that the foreign withholding tax credits do not cover the tax liability in full.

Deferred tax is recognised in respect of temporary differences at the Statement of Financial Position date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Current and deferred tax is measured using the tax rates enacted or substantively enacted at the reporting date.

Goods and services tax ('GST')

The Fund is not registered for GST and consequently all components of the financial statements are stated inclusive of GST where appropriate.

Segment information

The Fund operates solely in the business of investment management, investing in marketable and debt securities. The Fund receives all of its income from its investments. For the year ended 31 March 2017, no single marketable/debt security contributed more than 10% of the Fund's interest income. Note 12 has a breakdown of interest income by geographical location.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017

Changes in accounting policies and accounting standards adopted during the year

(a) Changes in accounting policies

There have been no significant changes in accounting policies during the period. All policies have been applied on a basis consistent with those used in the prior period.

(b) New accounting standards adopted

There were no new accounting standards adopted during the period that have a material impact to the financial statements of the Fund.

Issued but not yet effective accounting standards

A number of accounting standards have been issued or revised that are not yet effective as at 31 March 2017, and have not been applied in preparing the financial statements. The Fund does not plan to adopt these standards early. The standards which are relevant to the Fund are as follows:

- NZ IFRS 9 Financial Instruments - Effective for annual reporting periods beginning on or after 1 January 2018; The impact of any changes has not yet been determined.
- NZ IFRS 15 Revenue from Contracts with Customers - Effective for annual reporting periods beginning on or after 1 January 2018. The impact of any changes has not yet been determined.

1. TAXATION

	2017 \$'000	2016 \$'000
Tax expense comprises:		
Current tax expense	(1,708)	(1,482)
Total tax expense	(1,708)	(1,482)

The prima facie income tax expense on profit before tax from operations reconciles to the income tax expense in the financial statements as follows:

Income tax expense

	2017 \$'000	2016 \$'000
Profit before tax	6,098	5,292
Income tax using the statutory income tax rate 28%	(1,707)	(1,482)
Net changes in fair value of financial assets and financial liabilities	-	-
Non taxable income	-	-
Gross up of imputation credits	-	-
Less imputation credits and other tax credits	(1)	-
Income tax expense as per Statement of Comprehensive Income	(1,708)	(1,482)

Imputation credit account (ICA)

	2017 \$'000	2016 \$'000
Imputation credits available for use in subsequent periods	1,811	1,237

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017

2. INVESTMENTS SECURITIES

	2017	2016
	\$'000	\$'000
<i>Financial assets designated at fair value through profit or loss</i>		
International interest bearing securities	145,471	124,726
Interest bearing securities - repurchase agreements	(12,380)	-
	<u>133,091</u>	<u>124,726</u>

These investments are managed by PIMCO Australia Pty Limited and registered in the name of BNP Paribas Fund Services Australasia Pty Limited, New Zealand branch, the custodian of the Fund.

3. DERIVATIVES HELD FOR TRADING

The Fund holds the following derivative instruments:

(a) *Forward foreign exchange contracts*

Forward foreign exchange contracts are contractual obligations to buy or sell foreign currencies on a future date at a specified price. Forward foreign exchange contracts are settled on a net basis.

(b) *To-Be-Announced forwards (TBA)*

To-Be-Announced forward contracts are contractual obligations to buy or sell mortgage-backed financial instruments on a future date at a specified price.

To-Be-Announced forward contracts are normally settled on a cash basis.

(c) *Swaps*

Swaps are contractual agreements between two parties to exchange streams of payments over time based on specified notional amounts.

Interest rate swaps (IRS) are contractual arrangements to receive or pay a net amount based on changes in interest rates at a future date at a specified price.

Credit default swaps (CDS) are contractual obligations to make payments over time based on specified notional amounts in return for payout in the case of default by the underlying financial instruments.

(d) *Options*

Options are contractual agreements that convey the right, but not the obligation, for the purchaser either to buy or sell a specific amount of financial instrument at a fixed price, either at fixed future date or at any time with a specified date or the current fair value of the instruments.

(e) *Futures*

Futures are exchange-traded derivatives which represent agreements to buy/sell some underlying asset in the future for a specified price, established in an organised market.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017

3. DERIVATIVES HELD FOR TRADING (Continued)

	2017 \$'000	2016 \$'000
<i>Derivative assets held for trading :</i>		
Forward foreign exchange contracts	1,110	7,634
To-Be-Announced forwards	147	52
Interest rate swaps	950	1,450
Credit default swaps	198	188
Options	53	26
Futures	260	127
	2,718	9,477
<i>Derivative liabilities held for trading :</i>		
Forward foreign exchange contracts	(4,365)	(4,399)
To-Be-Announced forwards	(128)	-
Interest rate swaps	(1,369)	(2,825)
Credit default swaps	(427)	(303)
Options	(237)	(138)
Futures	(113)	(78)
	(6,639)	(7,743)

4. FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial instruments measured at fair value can be categorised across the following 3 levels based on the degree to which their fair value is 'observable':

Level 1 – Fair value measurements are derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 – Fair value measurements are derived from inputs other than quoted prices included within level 1 that are observable either directly or indirectly;

Level 3 – Fair value measurements are derived from valuation methods that include inputs that are not based on observable market data.

There were no transfers between levels in the year ended 31 March 2017 (31 March 2016: none).

The following table analyses financial instruments measured at fair value at the reporting date by the level in the fair value hierarchy into which the fair value measured is categorised. The amounts are based on the values recognised in the Statement of Financial Position.

There are no financial instruments are categorised at level 3 (31 March 2016: none).

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017

4. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

	2017			2016		
	Level 1	Level 2	Total	Level 1	Level 2	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<i>Financial assets held at fair value through profit or loss</i>						
Investment securities held at fair value through profit or loss	-	133,091	133,091	-	124,726	124,726
	<u>-</u>	<u>133,091</u>	<u>133,091</u>	<u>-</u>	<u>124,726</u>	<u>124,726</u>
<i>Derivative assets held for trading:</i>						
Forward foreign exchange contracts	-	1,110	1,110	-	7,634	7,634
To-Be-Announced forwards	-	147	147	-	52	52
Interest rate swaps	-	950	950	-	1,450	1,450
Credit default swaps	-	198	198	-	188	188
Options	-	53	53	-	26	26
Futures	260	-	260	127	-	127
	<u>260</u>	<u>2,458</u>	<u>2,718</u>	<u>127</u>	<u>9,350</u>	<u>9,477</u>
<i>Derivative liabilities held for trading:</i>						
Forward foreign exchange contracts	-	(4,365)	(4,365)	-	(4,399)	(4,399)
To-Be-Announced forwards	-	(128)	(128)	-	-	-
Interest rate swaps	-	(1,369)	(1,369)	-	(2,825)	(2,825)
Credit default swaps	-	(427)	(427)	-	(303)	(303)
Options	-	(237)	(237)	-	(138)	(138)
Futures	(113)	-	(113)	(78)	-	(78)
	<u>(113)</u>	<u>(6,526)</u>	<u>(6,639)</u>	<u>(78)</u>	<u>(7,665)</u>	<u>(7,743)</u>

5. BALANCES DUE FROM BROKERS

	2017	2016
	\$'000	\$'000
Margin accounts	427	546
Cash collateral	<u>4,121</u>	<u>1,452</u>
	<u>4,548</u>	<u>1,998</u>

Margin accounts represent cash deposits with brokers, transferred as collateral against open derivative contracts.

6. EARNINGS PER UNIT

The basic earnings per unit (EPU) is calculated by dividing the net profit/(loss) after tax attributable to the unitholders by the weighted average number of units on issue during the period.

The Fund's diluted EPU is the same as the basic EPU since the Fund has not issued any instrument with dilutive potential.

	2017	2016
Profit after tax (\$'000)	4,390	3,810
Weighted average number of units ('000)	<u>41,753</u>	<u>40,160</u>
Basic and diluted earnings per unit (cents per unit)	<u>10.51</u>	<u>9.49</u>

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017

7. DISTRIBUTION PAYABLE TO UNITHOLDERS

	2017 \$'000	2016 \$'000
Opening distribution payable	605	-
Distributions accrued to unitholders	2,903	605
Distributed to unitholders	(3,508)	-
Closing distribution payable	-	605

Distributions declared and paid

	Year ended	Distribution per unit (cents per unit)	2017 \$'000	2016 \$'000
March 2016 (paid April 2016)	31/03/2016	1.51	-	605
June 2016 (paid July 2016)	31/03/2017	1.44	600	-
September 2016 (paid October 2016)	31/03/2017	3.03	1,264	-
November 2016 (paid December 2016)	31/03/2017	1.30	544	-
February 2017 (paid March 2017)	31/03/2017	1.18	495	-
			2,903	605

8. UNITHOLDERS' FUNDS

As at 31 March 2017 there were 42,071,000 units on issue (31 March 2016: 40,196,000).

All issued units are fully paid and redeemable, and are quoted on the NZX Main Board. The Fund's net asset attributable to unitholders are represented by these units. The relevant movements are shown on the Statement of Changes in Unitholders Funds.

The number of units allotted during the year ended 31 March 2017 was 1,875,000 (31 March 2016: 40,196,000) for total value of \$5,782,000 (31 March 2016: \$120,017,000).

The number of units redeemed during the year ended 31 March 2017 was nil (31 March 2016: nil) for total value of \$nil (31 March 2016: \$nil).

	2017 '000	2016 '000
Movement in the number of units		
Balance at the beginning of the year/period	40,196	-
Subscriptions received during the year/period	1,875	40,196
Units on issue at the end of the year/period	42,071	40,196

The net asset value of each unit per the financial statements is \$3.10169 (31 March 2016: \$3.06553). Any difference between the net asset value announced to the market for 31 March 2017 and the net asset value per the financial statements is due to different unit pricing methodology.

GLOBAL BOND FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017

9. MATURITY ANALYSIS

The Fund invests in international interest bearing assets and other fixed income securities.

The tables below show an analysis of financial assets and financial liabilities analysed according to when they are expected to be recovered or settled.

	2017			2016		
	Within 12 months	Over 12 months	Total	Within 12 months	Over 12 months	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
ASSETS						
Cash at banks	833	-	833	2,997	-	2,997
Balances due from brokers	4,548	-	4,548	1,998	-	1,998
Receivables	981	-	981	833	-	833
Investment securities held at fair value through profit or loss	18,842	114,249	133,091	32,778	91,948	124,726
Derivatives held for trading	1,310	1,408	2,718	7,839	1,638	9,477
Unsettled sales	<u>1,371</u>	<u>-</u>	<u>1,371</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total assets	<u>27,885</u>	<u>115,657</u>	<u>143,542</u>	<u>46,445</u>	<u>93,586</u>	<u>140,031</u>
LIABILITIES						
Bank overdraft	(63)	-	(63)	-	-	-
Management fees payable	(6)	-	(6)	(56)	-	(56)
Taxation payable	(229)	-	(229)	(1,063)	-	(1,063)
Derivatives held for trading	(4,508)	(2,131)	(6,639)	(4,684)	(3,059)	(7,743)
Distribution payable to unitholders	-	-	-	(605)	-	(605)
Funds held for unit purchases	(83)	-	(83)	(10)	-	(10)
Unsettled purchases	<u>(6,031)</u>	<u>-</u>	<u>(6,031)</u>	<u>(7,332)</u>	<u>-</u>	<u>(7,332)</u>
Total liabilities	<u>(10,920)</u>	<u>(2,131)</u>	<u>(13,051)</u>	<u>(13,750)</u>	<u>(3,059)</u>	<u>(16,809)</u>

10. RELATED PARTY TRANSACTIONS

Related party holdings

Key management personnel are the Directors of the Manager. There were no transactions with key management personnel during the period.

The Fund is managed by Smartshares Limited, which is a wholly owned subsidiary of NZX Limited, a company listed on the NZX Main Board.

SuperLife superannuation scheme ("SLSS"), a scheme managed by SuperLife Limited, a wholly owned subsidiary of NZX Limited, was an investor in the Fund in this year between 1 April 2016 and 27 October 2016. Effective 28 October 2016, the investments were transferred from SLSS to SuperLife Invest managed investment scheme ("SLI"), a scheme managed by the Manager, also a wholly owned subsidiary of NZX Limited. The transfer of assets and change of Manager was completed as part of the transition of the SuperLife scheme to the Financial Markets Conduct Act 2013.

As at 31 March 2017, SLI held 40,091,479 units valued at \$124,324,000 in the Fund. As at 31 March 2016, SLSS held 40,091,479 units valued at \$122,687,000 in the Fund.

Distributions

The Fund paid distributions of \$1,792,000 (31 March 2016: \$604,000) to SLSS. All distributions were settled prior to the transfer of investments from SLSS to SLI. The balance remaining as payable as at 31 March 2016 was \$604,000. The Fund paid distributions of \$993,000 to SLI for the year ended 31 March 2017 (31 March 2016: not applicable). The balance remaining as payable at the end of the year is \$nil (31 March 2016: not applicable).

GLOBAL BOND FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017

10. RELATED PARTY TRANSACTIONS (Continued)

Management fees

The Manager receives management fees from the Fund. Under the Trust Deed the Manager pays the supervisor, custodian, registrar and auditor on behalf of the Fund and receives direct purchase application fees and interest earned on cash retained for the purpose of distribution prior to the distribution being made.

Total gross management fees excluding rebates for the year ended 31 March 2017 amounted to \$699,000 (31 March 2016: \$252,000), with \$6,000 (31 March 2016: \$56,000) of outstanding accrued management fees due to the Manager at the end of the year.

Total direct purchase application fees for the year ended 31 March 2017 amounted to \$3,000 (31 March 2016: \$1,000).

The total interest earned on cash at banks for the year ended 31 March 2017 amounted to \$nil (31 March 2016: \$nil).

Other related party transactions

The audit fee paid by the Manager for the audit of the Fund for the year ended 31 March 2017 was \$5,000 (31 March 2016: \$6,000).

11. FINANCIAL RISK MANAGEMENT

Strategy in using financial instruments

The Fund utilises a number of financial instruments in the course of its normal investing activities. Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised in respect of each class of financial asset and financial liability are disclosed in the Statement of Accounting Policies.

The financial instruments not accounted for at fair value through the profit and loss are short-term financial assets and financial liabilities whose carrying amounts approximate fair value.

Financial instruments by category

	2017	2016
	\$'000	\$'000
<u>Loans and receivables</u>		
Cash at banks	833	2,997
Balances due from brokers	4,548	1,998
Receivables	981	833
Unsettled sales	1,371	-
<u>Financial assets and financial liabilities at fair value through profit and loss</u>		
Investment securities held at fair value through profit or loss	133,091	124,726
Derivatives held for trading (financial assets)	2,718	9,477
Derivatives held for trading (financial liabilities)	(6,639)	(7,743)
<u>Other financial liabilities</u>		
Bank overdraft	(63)	-
Management fees payable	(6)	(56)
Distribution payable to unitholders	-	(605)
Funds held for unit purchases	(83)	(10)
Unsettled purchases	(6,031)	(7,332)

The Fund's activities expose it to a variety of financial risks: market price risk, interest rate risk, credit risk, liquidity risk and currency risk. The risk management policies used by the Fund are detailed below:

GLOBAL BOND FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017

11. FINANCIAL RISK MANAGEMENT (Continued)

11a. Market price risk

Market price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices.

The Fund invests mainly in interest-bearing assets which are not directly subject to market price risk. However, the Fund holds futures contracts which are subject to market price risk. A 10% increase/decrease in market price will result in an increase/decrease in fair value on financial assets and financial liabilities through profit or loss of \$8,865,000 (31 March 2016: \$3,604,000).

11b. Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Interest rate risk is a direct consequence of investing in fixed income securities (mainly debt securities) and derivatives (including interest rate swaps).

The Fund holds interest-bearing financial assets and liabilities - the values of which move up and down inversely to movements in market interest rates and is therefore exposed to interest rate risk.

The exposure of the Fund to interest rate risk is an investment decision taken by the Investment Manager and the size of that risk is limited in the mandate of the Investment Manager and is monitored and reviewed by the Manager on a regular basis.

The following table analyses the Fund's interest rate risk exposure. The analysis has been prepared on the basis of the remaining period to contractual repricing or maturity dates.

	2017					
	Within 6 months	Between 6-12 months	Between 1-2 years	Between 2-5 years	Over 5 years	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
ASSETS						
Cash at banks	833	-	-	-	-	833
International interest bearing securities	11,932	6,756	15,227	34,229	64,947	133,091
Derivatives held for trading	-	-	-	24	697	721
Total financial assets subject to interest rate risk	12,765	6,756	15,227	34,253	65,644	134,645
LIABILITIES						
Bank overdraft	(63)	-	-	-	-	(63)
Derivatives held for trading	-	-	-	482	760	1,242
Total financial liabilities subject to interest rate risk	(63)	-	-	482	760	1,179

GLOBAL BOND FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017

11. FINANCIAL RISK MANAGEMENT (Continued)

	2016					Total \$'000
	Within 6 months	Between 6-12 months	Between 1-2 years	Between 2-5 years	Over 5 years	
	\$'000	\$'000	\$'000	\$'000	\$'000	
ASSETS						
Cash at banks	2,997	-	-	-	-	2,997
International interest bearing securities	19,610	13,168	3,784	29,606	58,558	124,726
Derivatives held for trading	-	-	-	111	1,339	1,450
Total financial assets subject to interest rate risk	22,607	13,168	3,784	29,717	59,897	129,173
LIABILITIES						
Bank overdraft	-	-	-	-	-	-
Derivatives held for trading	-	-	6	287	2,532	2,825
Total financial liabilities subject to interest rate risk	-	-	6	287	2,532	2,825

The tables below show the sensitivity of the Fund's Statement of Comprehensive Income to a reasonably possible change in interest rates with all other variables remaining constant. The analysis is performed on the same basis for 31 March 2016. The sensitivity of the Statement of Comprehensive Income is the effect of the assumed changes in interest rates on:

- 1) The interest income for the year based on floating rate financial assets held at 31 March 2017.
- 2) Changes in fair value of investments for the year based on revaluing fixed rate financial assets at 31 March 2017.

	2017			
	Sensitivity of interest income		Sensitivity of changes in fair value of investments	
	100 basis points increase	100 basis points decrease	100 basis points increase	100 basis points decrease
	\$'000	\$'000	\$'000	\$'000
Cash at banks	9	(9)	-	-
International interest bearing securities	-	-	(8,393)	9,469
Derivatives held for trading	-	-	2,944	(2,864)
	2016			
	Sensitivity of interest income		Sensitivity of changes in fair value of investments	
	100 basis points increase	100 basis points decrease	100 basis points increase	100 basis points decrease
	\$'000	\$'000	\$'000	\$'000
Cash at banks	44	(44)	-	-
International interest bearing securities	30	(30)	(6,653)	6,446
Derivatives held for trading	-	-	1,457	(2,898)

GLOBAL BOND FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017

11. FINANCIAL RISK MANAGEMENT (Continued)

11c. Credit risk

Credit risk represents the risk that a counterparty to the financial instrument will fail to perform contractual obligations under a contract and cause the Fund to incur a loss.

With respect to credit risk arising from the financial assets (excluding repurchase agreements) of the Fund, the Fund's exposure to credit risk arises from the default of the counterparty, with the current exposure equal to the fair value of these instruments as disclosed in the Statement of Financial Position. This does not represent the maximum risk exposure that could arise in the future as a result of changes in values, but best represents the current maximum exposure at the reporting date.

Credit risk arising from derivative financial instruments, such as forward foreign exchange contracts, interest rate swaps and credit default swaps, at any time, is limited to those with net positive fair value (Note 3).

There are no financial assets (including financial assets which are without an available credit rating), that are past due or impaired, or would otherwise be past due or impaired except for the terms having been renegotiated.

The analysis below summarises the credit quality of the Fund's exposure rated externally by Standard & Poor's, Moody's or Fitch. In situations where a security has different ratings by the agencies, the highest rating applies. If a security is not rated by one of these agencies, the Investment Manager will assess what rating the security might attain if it were to seek an external rating.

	2017				
	AAA to AA- \$'000	A+ to A- \$'000	BBB+ to B- \$'000	CCC+ to C- \$'000	Total \$'000
International interest bearing securities	72,785	25,276	43,285	4,125	145,471
Derivatives held for trading	77	2,181	-	-	2,258
	<u>72,862</u>	<u>27,457</u>	<u>43,285</u>	<u>4,125</u>	<u>147,729</u>

	2016				
	AAA to AA- \$'000	A+ to A- \$'000	BBB+ to B- \$'000	CCC+ to C- \$'000	Total \$'000
International interest bearing securities	69,325	22,069	32,864	468	124,726
Derivatives held for trading	710	8,562	-	-	9,272
	<u>70,035</u>	<u>30,631</u>	<u>32,864</u>	<u>468</u>	<u>133,998</u>

Cash and cash equivalents

The Fund's cash and cash equivalents are held with ANZ Bank New Zealand Limited ('ANZ'), BNP Paribas Securities Services ('BNP Paribas') and Westpac New Zealand Limited ('Westpac').

The table below discloses the Standard & Poor's credit rating for the Fund's cash and cash equivalents balance excluding bank overdraft with each bank above at the reporting date.

	Balance \$'000	2017 Credit rating	Balance \$'000	2016 Credit rating
ANZ	83	AA-	616	AA-
BNP Paribas	750	A	2,381	A-
Westpac	-	AA-	-	AA-
	<u>833</u>		<u>2,997</u>	

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017

11. FINANCIAL RISK MANAGEMENT (Continued)

Balances due from brokers

Balances due from brokers represent margin accounts and cash collaterals. At the reporting date, the Fund's futures margin accounts are held with Morgan Stanley (A+ S&P credit rating) (31 March 2016: A+). The Fund's cash collateral balances are also mainly held with Morgan Stanley.

The Investment Manager is responsible for assessing and monitoring the creditworthiness of borrower, guarantors, issuers of debt securities, acceptors of bills of exchange, or other sources of credit risk.

11d. Liquidity risk

Liquidity risk is the risk that the Fund will encounter difficulty in meeting obligations associated with the financial liabilities that are settled by delivering cash or another financial asset.

The Fund is able to generate sufficient cash on a timely manner to meet its financial commitments and normal level of redemptions. The Investment Manager ensures that the Fund has appropriate liquidity levels within allowable benchmark ranges. In the event of abnormal levels of redemptions, timing of payments may depend on the ability of the Fund to realise its underlying investments on a timely basis, subject to provisions in the Trust Deed.

The table below analyses the net settled derivative financial assets and financial liabilities into relevant maturity groupings based on the remaining periods at balance date to the contractual maturity date. The amounts in the table are the contractual undiscounted cash flows.

The contractual cash flows are based on the spot rate at the reporting date.

	Statement of Financial Position	Contractual cash flows	2017			
			Within 6 months	Between 6- 12 months	Between 1- 5 years	Over 5 years
			\$000	\$000	\$000	\$000
Derivative assets held for trading	2,718					
<i>Inflow</i>		245,342	220,453	3,549	12,760	8,580
<i>Outflow</i>		(236,838)	(218,179)	(3,094)	(9,508)	(6,057)
Derivative liabilities held for trading	(6,639)					
<i>Inflow</i>		387,166	356,925	1,239	22,591	6,411
<i>Outflow</i>		(408,360)	(362,895)	(3,094)	(30,496)	(11,875)
	Statement of Financial Position	Contractual cash flows	2016			
			Within 6 months	Between 6- 12 months	Between 1- 5 years	Over 5 years
			\$000	\$000	\$000	\$000
Derivative assets held for trading	9,477					
<i>Inflow</i>		336,088	310,594	890	21,692	2,628
<i>Outflow</i>		(321,678)	(302,251)	(466)	(19,144)	(92)
Derivative liabilities held for trading	(7,743)					
<i>Inflow</i>		242,078	224,788	8,884	4,540	3,866
<i>Outflow</i>		(235,080)	(227,977)	(8,500)	(987)	(410)

GLOBAL BOND FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017

11. FINANCIAL RISK MANAGEMENT (Continued)

11e. Currency Risk

Currency risk is the risk that the value of the financial instruments will fluctuate due to changes in foreign exchange rates.

The Fund holds financial instruments denominated in currencies other than the New Zealand dollar, the functional currency, at year end. The Fund is therefore subject to risk due to fluctuations in the prevailing currency exchange rate. A change in exchange rates would impact the New Zealand dollar equivalent market price of the financial instruments in which the Fund invests.

The Fund enters into forward exchange contracts designed to economically hedge the foreign exposure of the underlying investments. The Fund is to be economically hedged to New Zealand dollars between 95% and 105%.

The currency risk disclosures have been prepared on the basis of the Fund's direct investments.

The table below summaries the Fund's exposure to currency risk in New Zealand dollar value of the financial instruments.

	2017						
	AUD \$'000	CAD \$'000	EUR \$'000	GBP \$'000	JPY \$'000	USD \$'000	Other \$'000
Assets and liabilities							
Foreign currency cash balances held (NZD)	125	62	456	379	167	4,015	97
Investment securities held at fair value through profit or loss	717	4,198	14,391	10,373	22,746	67,522	13,150
Derivatives held for trading	(1,137)	(4,240)	(14,832)	(10,033)	(22,989)	(71,736)	(10,004)
Receivables/(payables)	(232)	40	(1,118)	(2,007)	1	10	(606)
Total financial assets and liabilities	(527)	60	(1,103)	(1,288)	(75)	(189)	2,637

	2016						
	AUD \$'000	CAD \$'000	EUR \$'000	GBP \$'000	JPY \$'000	USD \$'000	Other \$'000
Assets and liabilities							
Foreign currency cash balances held (NZD)	10	179	(60)	251	(777)	4,614	148
Investment securities held at fair value through profit or loss	1,473	4,815	20,388	11,326	93	72,402	14,232
Derivatives held for trading	(1,492)	(5,030)	(20,975)	(11,580)	(774)	(70,715)	(11,449)
Receivables/(payables)	12	44	221	47	-	390	70
Total financial assets and liabilities	3	8	(426)	44	(1,458)	6,691	3,001

GLOBAL BOND FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017

11. FINANCIAL RISK MANAGEMENT (Continued)

The table below summarises the sensitivity analysis in NZD currency to an increase or decrease in the exchange rate with all other variables remaining constant, where the Fund has significant currency risk exposure, based on an assumed increase/decrease by the percentage disclosed in the table.

	2017		2016	
	Profit or loss and 10% increase \$'000	Unitholders' Funds 10% decrease \$'000	Profit or loss and 10% increase \$'000	Unitholders' Funds 10% decrease \$'000
Assets and liabilities				
Foreign currency cash balances held (NZD)	(530)	530	(437)	437
Investment securities held at fair value through profit or loss	(13,310)	13,310	(12,473)	12,473
Derivatives held for trading	13,497	(13,497)	12,202	(12,202)
Receivables/(payables)	391	(391)	(78)	78
	<u>48</u>	<u>(48)</u>	<u>(786)</u>	<u>786</u>

11f. Financial assets and liabilities subject to offsetting, enforceable master netting arrangements and similar agreements

The following table presents the recognised derivatives that are subject to offsetting, or other similar arrangements but not offset, as at 31 March 2017 and 31 March 2016.

	2017					
	Related amounts not set-off in the statement of financial position					
	Gross amounts of recognised financial instruments \$'000	Gross amounts of recognised financial instruments set-off in the statement of financial position \$'000	Net amounts of financial instruments presented in the statement of financial position \$'000	Financial instruments \$'000	Cash collateral received/ pledged \$'000	Net amount \$'000
Total derivative assets	<u>2,571</u>	<u>-</u>	<u>2,571</u>	<u>(2,424)</u>	<u>-</u>	<u>147</u>
Total derivatives liabilities	<u>(6,511)</u>	<u>-</u>	<u>(6,511)</u>	<u>2,424</u>	<u>-</u>	<u>(4,087)</u>

	2016					
	Related amounts not set-off in the statement of financial position					
	Gross amounts of recognised financial instruments \$'000	Gross amounts of recognised financial instruments set-off in the statement of financial position \$'000	Net amounts of financial instruments presented in the statement of financial position \$'000	Financial instruments \$'000	Cash collateral received/ pledged \$'000	Net amount \$'000
Total derivative assets	<u>9,426</u>	<u>-</u>	<u>9,426</u>	<u>(6,142)</u>	<u>-</u>	<u>3,284</u>
Total derivatives liabilities	<u>(7,743)</u>	<u>-</u>	<u>(7,743)</u>	<u>6,142</u>	<u>-</u>	<u>(1,601)</u>

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017

12. SEGMENT INFORMATION

The table below analyses the Fund's interest income grouped by geographical location.

	2017	2016
	\$'000	\$'000
United Kingdom *	(17)	158
Euro Zone	625	508
United States of America (USA)	1,836	474
Americas (excluding USA) *	(105)	195
Other	<u>88</u>	<u>73</u>
	<u>2,427</u>	<u>1,408</u>

* Interest income includes mortgage-backed securities principal repayments.

13. COMMITMENTS AND CONTINGENCIES

The Fund had no commitments or contingencies as at 31 March 2017 (31 March 2016: none).

14. EVENTS AFTER THE REPORTING YEAR

Since 31 March 2017 there have been no matters or circumstances not otherwise dealt with in the financial statements that have significantly affected or may significantly affect the Fund.



Independent Auditor's Report

To the unitholders of Global Bond Fund

Report on the financial statements

Opinion

In our opinion, the accompanying financial statements of Global Bond Fund (the fund) on pages 3 to 23:

- i. present fairly in all material respects the fund's financial position as at 31 March 2017 and its financial performance and cash flows for the year ended on that date; and
- ii. comply with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

We have audited the accompanying financial statements which comprise:

- the statement of financial position as at 31 March 2017;
- the statement of comprehensive income, statement of changes in unitholders' funds and statement of cash flows for the year then ended; and
- notes, including a summary of significant accounting policies and other explanatory information.



Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) ("ISAs (NZ)"). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the fund in accordance with Professional and Ethical Standard 1 (Revised) Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Our responsibilities under ISAs (NZ) are further described in the Auditor's Responsibilities for the Audit of the financial statements section of our report.

Our firm has also provided other assurance services to the fund in relation to reporting to the supervisor. Subject to certain restrictions, employees of our firm may also deal with the fund on normal terms within the ordinary course of trading activities of the business of the fund. These matters have not impaired our independence as auditor of the fund. The firm has no other relationship with, or interest in, the fund.



Materiality

The scope of our audit was influenced by our application of materiality. Materiality helped us to determine the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the financial statements as a whole. The materiality for the financial statements as a whole was set at \$1,435,000 determined with reference to a benchmark of the fund's total assets. We chose the benchmark because, in our view, this is a key measure of the fund's performance.

GLOBAL BOND FUND



Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements in the current period. We summarise below those matters and our key audit procedures to address those matters in order that the members as a body may better understand the process by which we arrived at our audit opinion. Our procedures were undertaken in the context of and solely for the purpose of our statutory audit opinion on the financial statements as a whole and we do not express discrete opinions on separate elements of the financial statements.

The key audit matter

How the matter was addressed in our audit

Carrying amount of investments

Refer to Note 2 to the Financial Statements.

The fund's portfolio of investments makes up 92.7% of total assets. We do not consider these investments to be at high risk of significant misstatement, or be subject to a significant level of judgement, because they comprise bonds or other simple fixed interest instruments. However, due to their materiality in the context of the financial statements as a whole, they are considered to be the area which had the greatest effect on our overall audit strategy and allocation of resources in planning and completing our audit.

Our audit procedures included:

- documenting and understanding the processes in place to record investment transactions and to value the portfolio. This included evaluating the control environment in place at the administration manager by obtaining and reading a report issued by an independent auditor on the design and operation of those controls
- agreeing a sample of the 31 March 2017 valuations of listed fixed interest instruments to externally quoted prices and unlisted fixed interest investments to broker quotes. Where externally quoted prices or broker quotes are not available we applied valuation methods using observable market interest rates to assess the valuation
- agreeing investment holdings to confirmations received from the administration manager

We did not identify any material differences in relation to the carrying amount of investments.



Other Information

The Manager, on behalf of the fund, is responsible for the other information included in the entity's Annual Report. Other information may include the Chairman's report, fund highlights, disclosures relating to corporate governance and statutory information. Our opinion on the financial statements does not cover any other information and we do not express any form of assurance conclusion thereon.

The Annual Report is expected to be made available to us after the date of this Independent Auditor's Report. Our responsibility is to read the Annual Report when it becomes available and consider whether the other information it contains is materially inconsistent with the financial statements, or our knowledge obtained in the audit, or otherwise appear misstated. If so, we are required to report such matters to the Manager.



Use of this Independent Auditor's Report

This report is made solely to the members as a body. Our audit work has been undertaken so that we might state to the members those matters we are required to state to them in the Independent Auditor's Report and

GLOBAL BOND FUND



for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the members as a body for our audit work, this report, or any of the opinions we have formed.



Responsibilities of the Manager for the financial statements

The Manager, on behalf of the fund, are responsible for:

- the preparation and fair presentation of the financial statements in accordance with generally accepted accounting practice in New Zealand (being New Zealand Equivalents to International Financial Reporting Standards) and International Financial Reporting Standards;
- implementing necessary internal control to enable the preparation of a set of financial statements that is fairly presented and free from material misstatement, whether due to fraud or error; and
- assessing the ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate or to cease operations, or have no realistic alternative but to do so.



Auditor's Responsibilities for the Audit of the financial statements

Our objective is:

- to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error; and
- to issue an Independent Auditor's Report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs NZ will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of these financial statements is located at the External Reporting Board (XRB) website at:

https://www.xrb.govt.nz/Site/Auditing_Assurance_Standards/Current_Standards/Page2.aspx

This description forms part of our Independent Auditor's Report.

Brent Manning

For and on behalf of

KPMG

Wellington

25 May 2017