



## **GLOBAL BOND FUND**

**FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 MARCH 2018**

**Presented by Smartshares Limited, Manager of the Global Bond Fund**

# GLOBAL BOND FUND

## TABLE OF CONTENTS

	<b>Page</b>
<b>Directory</b>	1
<b>Statement by the Manager</b>	2
<b>Financial Statements</b>	
Statement of Comprehensive Income	3
Statement of Changes in Unitholders' Funds	4
Statement of Financial Position	5
Statement of Cash Flows	6
Notes to the Financial Statements	7 - 23
<b>Auditor's Report</b>	24 - 26

# GLOBAL BOND FUND

## DIRECTORY

### MANAGER

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

### SUPERVISOR

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

This is also the address of the registered office.

Phone: 0800 80 87 80

Email: [smartshares@smartshares.co.nz](mailto:smartshares@smartshares.co.nz)

Website: [www.smartshares.co.nz](http://www.smartshares.co.nz)

### PRINCIPAL OFFICE OF THE MANAGER

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

### INVESTMENT MANAGER

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

### DIRECTORS OF THE MANAGER

Bevan K. Miller (resigned 27 October 2017)  
Guy R. Elliffe  
A. John Williams  
Paul J. Baldwin  
Mark J. Peterson (appointed 27 October 2017)

### 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'). 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.

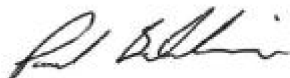
The Global Bond Fund (the 'Fund') was created by an establishment deed dated 15 October 2015 as amended and restated on 9 September 2016 between the Manager and the Supervisor.

### 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 2018, and the results of its financial performance and cash flows for the year ended 31 March 2018 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 24 May 2018.

# GLOBAL BOND FUND

## STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2018

	Note	2018 \$'000	2017 \$'000
<b>INCOME</b>			
Dividend income		3	2
Interest income		3,427	2,427
Net changes in fair value of financial assets and financial liabilities at fair value through profit or loss		1,198	5,253
Foreign exchange gain		1,386	-
Other income		<u>2</u>	<u>-</u>
<b>Total income</b>		<b><u>6,016</u></b>	<b><u>7,682</u></b>
<b>EXPENSES</b>			
Management fees expense	9	(755)	(699)
Foreign exchange loss		-	(832)
Interest expense		(83)	(25)
Miscellaneous expenses		<u>(38)</u>	<u>(28)</u>
<b>Total expenses</b>		<b><u>(876)</u></b>	<b><u>(1,584)</u></b>
<b>Profit before tax</b>		<b>5,140</b>	<b>6,098</b>
Income tax expense	1	<u>(1,440)</u>	<u>(1,708)</u>
<b>Profit after tax</b>		<b>3,700</b>	<b>4,390</b>
Other comprehensive income		<u>-</u>	<u>-</u>
<b>Total comprehensive income</b>		<b><u>3,700</u></b>	<b><u>4,390</u></b>
<b>EARNINGS PER UNIT</b>			
Basic and diluted earnings per unit (cents per unit)	5	<u><u>8.19</u></u>	<u><u>10.51</u></u>

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

# GLOBAL BOND FUND

## STATEMENT OF CHANGES IN UNITHOLDERS' FUNDS FOR THE YEAR ENDED 31 MARCH 2018

	Note	2018 \$'000	2017 \$'000
Unitholders' funds at the beginning of the year		130,491	123,222
Total comprehensive income for the year		<u>3,700</u>	<u>4,390</u>
Subscriptions from unitholders	7	38,059	5,782
Distributions to unitholders	6	<u>(1,945)</u>	<u>(2,903)</u>
		<u>36,114</u>	<u>2,879</u>
Unitholders' funds at the end of the year		<u><u>170,305</u></u>	<u><u>130,491</u></u>

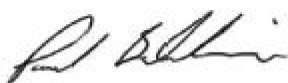
*The accompanying notes form part of and should be read in conjunction with these financial statements.*

# GLOBAL BOND FUND

## STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2018

		As At 31 March 2018 \$'000	As At 31 March 2017 \$'000
<b>ASSETS</b>	<b>Note</b>		
Cash at banks		2,595	833
Balances due from brokers	4	2,480	4,548
Receivables		956	981
Investment securities held at fair value through profit or loss		166,181	133,091
Equity securities held at fair value through profit or loss		85	-
Derivatives held for trading	2	5,184	2,718
Unsettled sales of investments		395	1,371
<b>TOTAL ASSETS</b>		<b>177,876</b>	<b>143,542</b>
<b>LIABILITIES</b>			
Bank overdraft		-	(63)
Management fees payable	9	(8)	(6)
Taxation payable		(355)	(229)
Derivatives held for trading	2	(6,368)	(6,639)
Funds held for unit purchases		(83)	(83)
Unsettled purchases of investments		(757)	(6,031)
<b>TOTAL LIABILITIES</b>		<b>(7,571)</b>	<b>(13,051)</b>
<b>UNITHOLDERS' FUNDS</b>		<b>170,305</b>	<b>130,491</b>
<b>TOTAL LIABILITIES AND UNITHOLDERS' FUNDS</b>		<b>177,876</b>	<b>143,542</b>

For and on behalf of the Manager, Smartshares Limited, who authorised the issue of the financial statements on 24 May 2018.



Director



Director

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

# GLOBAL BOND FUND

## STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 MARCH 2018

	Note	2018 \$'000	2017 \$'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
<i>Cash was provided from:</i>			
Dividend income received		3	2
Interest income received		3,452	2,272
Miscellaneous income received		2	-
<i>Cash was applied to:</i>			
Management fees paid		(753)	(749)
Taxation paid		(1,314)	(2,535)
Interest paid		(83)	(25)
Miscellaneous expenses paid		(38)	(28)
<b>Net cash flows from operating activities</b>		<b>1,269</b>	<b>(1,063)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
<i>Cash was provided from:</i>			
Sale of investments		215,134	277,515
Balance due from broker movement		2,068	-
<i>Cash was applied to:</i>			
Purchase of investments		(252,917)	(278,501)
Balance due to broker movement		-	(2,550)
<b>Net cash flows from investing activities</b>		<b>(35,715)</b>	<b>(3,536)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
<i>Cash was provided from:</i>			
Subscriptions received from unitholders		38,059	5,782
<i>Cash was applied to:</i>			
Distributions paid to unitholders		(1,945)	(3,508)
<b>Net cash flows from financing activities</b>		<b>36,114</b>	<b>2,274</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>1,668</b>	<b>(2,325)</b>
Cash and cash equivalents at the beginning of the year		770	2,997
Effect of exchange rate fluctuations on cash and cash equivalents		157	98
<b>Cash and cash equivalents at the end of the year</b>		<b>2,595</b>	<b>770</b>
<b>Reconciliation of profit after tax to net cash flows from operating activities</b>			
Profit after tax		3,700	4,390
Net changes in fair value of financial assets and financial liabilities at fair value through profit or loss		(1,198)	(5,253)
Foreign exchange (gain)/loss		(1,386)	832
Increase/(decrease) in taxation payable		126	(834)
Increase/(decrease) in payables		2	(50)
Decrease/(increase) in receivables		25	(148)
<b>Net cash flows from operating activities</b>		<b>1,269</b>	<b>(1,063)</b>

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



# GLOBAL BOND FUND

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018

### 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'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 years presented.

#### 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 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.

# GLOBAL BOND FUND

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018

### (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.

# GLOBAL BOND FUND

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018

### 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 relate to cash contributions, withdrawals and distributions.

### 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, which 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 dates for the distributions are on the last business days of February, May, August and November each year. Currently, distributions are paid to unitholders 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 after the deduction of management fees and other deductible expenses. The Fund is able to utilise foreign withholding tax credits when they are available. 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 reporting 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. Note 11 has a breakdown of interest income by geographical location.

# GLOBAL BOND FUND

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018

### 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 year. All policies have been applied on a basis consistent with those used in the prior years.

#### (b) New accounting standards adopted

There were no new accounting standards adopted during the year that have a material impact on 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 2018, and have not been applied in preparing the financial statements. The Fund has not adopted these standards early. The standards which are relevant to the Fund are as follows:

#### NZ IFRS 9: *Financial Instruments*

NZ IFRS 9 addresses the classification, measurement and recognition of financial assets and financial liabilities. It replaces the multiple classification and measurement models in IAS 39 and is effective for reporting periods beginning on or after 1 January 2018 and earlier application is permitted.

Classification and measurement of debt assets will be driven by the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. A debt instrument is measured at amortised cost if the objective of the business model is to hold the financial asset for the collection of the contractual cash flows and contractual cash flows under the instrument solely represent payments of principal and interest (SPPI). A debt instrument is measured at fair value through other comprehensive income if the objective of the business model is to hold the financial asset both to collect contractual cash flows from SPPI and to sell. All other debt business instruments must be recognized at fair value through profit or loss. An entity may however, at initial recognition, irrevocably designate a financial asset as measured at fair value through profit or loss if doing so eliminates or significantly reduces a measurement or recognition inconsistency. Derivative and equity instruments are measured at fair value through profit or loss unless, for equity instruments not held for trading, an irrevocable option is taken to measure at fair value through other comprehensive income. IFRS 9 also introduces a new expected credit loss (ECL) impairment model.

On adoption of IFRS 9 the Fund's investment portfolio will continue to be classified as fair value through profit or loss. Other financial assets which are held for collection will continue to be measured at amortised cost with no material impact expected from application of the new impairment model. As a result, the adoption of IFRS 9 is not expected to have a material impact on the Fund's financial statements.

#### NZ IFRS 15: *Revenue from contracts with customers*

NZ IFRS 15 makes significant changes to revenue recognition and adds some additional disclosures, replacing NZ IAS 18 'Revenue' and NZ IAS 11 'Construction contracts' and related interpretations. The new standard provides a five step model to be applied to all contracts with customers when determining when to recognise revenue, and at what amount. The standard is effective for annual periods beginning on or after 1 January 2018 and earlier application is permitted. The Fund's main sources of revenue are interest income and gains on financial instruments measured at fair value through profit or loss. As these are outside the scope of the new standard, the adoption of NZ IFRS 15 is not expected to have a material impact on the Fund's financial statements.

# GLOBAL BOND FUND

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018

### 1. TAXATION

	2018 \$'000	2017 \$'000
<b>Tax expense comprises:</b>		
Current tax expense	<u>(1,440)</u>	<u>(1,708)</u>
<b>Total tax expense</b>	<b><u>(1,440)</u></b>	<b><u>(1,708)</u></b>

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

#### Income tax expense

	2018 \$'000	2017 \$'000
Profit before tax	<u>5,140</u>	<u>6,098</u>
<b>Income tax using the statutory income tax rate 28%</b>	<b><u>(1,439)</u></b>	<b><u>(1,707)</u></b>
Net changes in fair value of financial assets and financial liabilities	-	-
Non-taxable income	-	-
Gross up of imputation credits	<u>-</u>	<u>-</u>
	-	-
Less imputation credits and other tax credits	<u>(1)</u>	<u>(1)</u>
<b>Income tax expense as per Statement of Comprehensive Income</b>	<b><u>(1,440)</u></b>	<b><u>(1,708)</u></b>

#### Imputation credit account (ICA)

	2018 \$'000	2017 \$'000
Imputation credits available for use in subsequent periods	2,491	1,811

# GLOBAL BOND FUND

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018

### 2. 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) *Forward rate agreements*

Forward rate agreements are contracts for borrowing or lending at a stated interest rate over a stated time period that begins at some time in the future.

(c) *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.

(d) *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.

(e) *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 stipulated price within a stated period of time for the current fair value of the instruments.

(f) *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.

	<b>2018</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>
<i>Derivative assets held for trading :</i>		
Forward foreign exchange contracts	2,618	1,110
To-Be-Announced forwards	192	147
Forward rate agreements	15	-
Interest rate swaps	1,353	950
Credit default swaps	8	198
Options	101	53
Futures	897	260
	<b>5,184</b>	<b>2,718</b>
<i>Derivative liabilities held for trading :</i>		
Forward foreign exchange contracts	(4,411)	(4,365)
To-Be-Announced forwards	(40)	(128)
Interest rate swaps	(805)	(1,369)
Credit default swaps	(342)	(427)
Options	(297)	(237)
Futures	(473)	(113)
	<b>(6,368)</b>	<b>(6,639)</b>

# GLOBAL BOND FUND

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018

### 3. 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 2018 (2017: 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 (2017: none).

	2018			2017		
	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>						
Interest-bearing securities	-	166,181	166,181	-	133,091	133,091
Investments in listed equity securities	85	-	85	-	-	-
	<b>85</b>	<b>166,181</b>	<b>166,266</b>	<b>-</b>	<b>133,091</b>	<b>133,091</b>
<i>Derivative assets held for trading:</i>						
Forward foreign exchange contracts	-	2,618	2,618	-	1,110	1,110
To-Be-Announced forwards	-	192	192	-	147	147
Forward rate agreements	-	15	15	-	-	-
Interest rate swaps	-	1,353	1,353	-	950	950
Credit default swaps	-	8	8	-	198	198
Options	-	101	101	-	53	53
Futures	897	-	897	260	-	260
	<b>897</b>	<b>4,287</b>	<b>5,184</b>	<b>260</b>	<b>2,458</b>	<b>2,718</b>
<i>Derivative liabilities held for trading:</i>						
Forward foreign exchange contracts	-	(4,411)	(4,411)	-	(4,365)	(4,365)
To-Be-Announced forwards	-	(40)	(40)	-	(128)	(128)
Interest rate swaps	-	(805)	(805)	-	(1,369)	(1,369)
Credit default swaps	-	(342)	(342)	-	(427)	(427)
Options	-	(297)	(297)	-	(237)	(237)
Futures	(473)	-	(473)	(113)	-	(113)
	<b>(473)</b>	<b>(5,895)</b>	<b>(6,368)</b>	<b>(113)</b>	<b>(6,526)</b>	<b>(6,639)</b>

The fair value of fixed interest securities at the reporting date are based on binding dealer price quotations and are categorised within level 2.

The fair value of exchange-traded futures and preference shares are based on quoted market prices and are included within level 1.

The Fund uses widely recognised valuation models for determining fair values of over-the-counter derivatives such as options. For these financial instruments, inputs into models are market observable and are therefore included within level 2. The fair values of forward foreign exchange contracts are calculated by reference to current exchange rates for contracts with similar maturity and risk profiles. The fair values of To-Be-Announced forwards are calculated by reference to underlying bond prices. The fair value of credit default swaps is based on the quoted market prices and included in within level 2. The fair value of the interest rate swaps is calculated by the yield curve of underlying interest securities interest rates and is included in the within level 2.

# GLOBAL BOND FUND

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018

### 4. BALANCES DUE FROM BROKERS

	2018	2017
	\$'000	\$'000
Margin accounts	88	427
Cash collateral	2,392	4,121
	<u>2,480</u>	<u>4,548</u>

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

### 5. 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 year.

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

	2018	2017
	\$'000	\$'000
Profit after tax (\$'000)	3,700	4,390
Weighted average number of units ('000)	45,163	41,753
<b>Basic and diluted earnings per unit (cents per unit)</b>	<u><b>8.19</b></u>	<u><b>10.51</b></u>

### 6. DISTRIBUTION PAID TO UNITHOLDERS

#### Distributions declared and paid

	Year ended	Distribution per unit (cents per unit)	2018 \$'000	2017 \$'000
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
May 2017 (paid June 2017)	31/03/2018	1.20	505	-
August 2017 (paid September 2017)	31/03/2018	1.15	490	-
November 2017 (paid December 2017)	31/03/2018	1.09	485	-
February 2018 (paid March 2018)	31/03/2018	0.91	465	-
			<u><b>1,945</b></u>	<u><b>2,903</b></u>

### 7. UNITHOLDERS' FUNDS

As at 31 March 2018 there were 54,176,000 units on issue (2017: 42,071,000).

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 2018 was 12,105,000 (2017: 1,875,000) for total value of \$38,059,000 (2017: \$5,782,000).

The number of units redeemed during the year ended 31 March 2018 was nil (2017: nil) for total value of \$nil (2017: \$nil).



# GLOBAL BOND FUND

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018

### 7. UNITHOLDERS' FUNDS (Continued)

	2018 '000	2017 '000
<b>Movement in the number of units</b>		
Balance at the beginning of the year	42,071	40,196
Subscriptions received during the year	12,105	1,875
<b>Units on issue at the end of the year</b>	<b>54,176</b>	<b>42,071</b>

The net asset value of each unit per the financial statements is \$3.14355 (2017: \$3.10169). Any difference between the net asset value announced to the market for 29 March 2018 and the net asset value per the financial statements is due to different unit pricing methodology.

### 8. 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.

	2018			2017		
	Within 12 months \$'000	Over 12 months \$'000	Total \$'000	Within 12 months \$'000	Over 12 months \$'000	Total \$'000
<b>ASSETS</b>						
Cash at banks	2,595	-	2,595	833	-	833
Balances due from brokers	2,480	-	2,480	4,548	-	4,548
Receivables	956	-	956	981	-	981
Investment securities held at fair value through profit or loss	44,336	121,845	166,181	18,842	114,249	133,091
Equity securities held at fair value through profit or loss	-	85	85	-	-	-
Derivatives held for trading	3,675	1,509	5,184	1,310	1,408	2,718
Unsettled sales of investments	395	-	395	1,371	-	1,371
<b>Total assets</b>	<b>54,437</b>	<b>123,439</b>	<b>177,876</b>	<b>27,885</b>	<b>115,657</b>	<b>143,542</b>
<b>LIABILITIES</b>						
Bank overdraft	-	-	-	(63)	-	(63)
Management fees payable	(8)	-	(8)	(6)	-	(6)
Taxation payable	(355)	-	(355)	(229)	-	(229)
Derivatives held for trading	(5,194)	(1,174)	(6,368)	(4,508)	(2,131)	(6,639)
Funds held for unit purchases	(83)	-	(83)	(83)	-	(83)
Unsettled purchases of investments	(757)	-	(757)	(6,031)	-	(6,031)
<b>Total liabilities</b>	<b>(6,397)</b>	<b>(1,174)</b>	<b>(7,571)</b>	<b>(10,920)</b>	<b>(2,131)</b>	<b>(13,051)</b>

# GLOBAL BOND FUND

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018

### 9. 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 year.

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 Invest managed investment scheme ("SLI"), a scheme managed by the Manager, a wholly owned subsidiary of NZX Limited held 46,145,199 units (2017: 40,091,479) valued at \$144,983,000 (2017: \$124,324,000) in the Fund.

#### Distributions

The Fund paid distributions of \$1,812,000 to SLI for the year ended 31 March 2018 (2017: \$993,000). The balance remaining as payable at the end of the year is \$nil (2017: \$nil).

#### Management fees

The Manager receives management fees from the Fund. Under the Trust Deed the Manager pays the supervisor, investment manager, 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 2018 amounted to \$755,000 (2017: \$699,000), with \$8,000 (2017: \$6,000) 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 2018 amounted to \$2,000 (2017: \$3,000).

The total interest earned on cash at banks for the year ended 31 March 2018 amounted to \$3,000 (2017: \$nil).

#### Other related party transactions

The audit fee paid by the Manager for the audit of the Fund for the year ended 31 March 2018 was \$5,000 (2017: \$5,000).

### 10. 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

	2018	2017
	\$'000	\$'000
<u>Loans and receivables</u>		
Cash at banks	2,595	833
Balances due from brokers	2,480	4,548
Receivables	956	981
Unsettled sales of investments	395	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	166,181	133,091
Equity securities held at fair value through profit or loss	85	-
Derivatives held for trading (financial assets)	5,184	2,718
Derivatives held for trading (financial liabilities)	(6,368)	(6,639)

# GLOBAL BOND FUND

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018

### 10. FINANCIAL RISK MANAGEMENT (Continued)

#### Financial instruments by category

	2018 \$'000	2017 \$'000
<i>Other financial liabilities</i>		
Bank overdraft	-	(63)
Management fees payable	(8)	(6)
Distribution payable to unitholders	-	-
Funds held for unit purchases	(83)	(83)
Unsettled purchases of investments	(757)	(6,031)

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:

#### 10a. 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 \$10,740,000 (2017: \$8,865,000). The Fund also holds listed preference shares which are subject to market price risk, however this risk is not considered to be significant.

#### 10b. 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.

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.

	2018					
	Within 6 months \$'000	Between 6-12 months \$'000	Between 1-2 years \$'000	Between 2-5 years \$'000	Over 5 years \$'000	Total \$'000
<b>ASSETS</b>						
Cash at banks	2,595	-	-	-	-	2,595
International interest-bearing securities	39,826	4,510	12,660	44,995	64,190	166,181
Derivatives held for trading	208	-	31	512	803	1,554
<b>Total financial assets subject to interest rate risk</b>	<b>42,629</b>	<b>4,510</b>	<b>12,691</b>	<b>45,507</b>	<b>64,993</b>	<b>170,330</b>
<b>LIABILITIES</b>						
Derivatives held for trading	(40)	-	(562)	(61)	(182)	(845)
<b>Total financial liabilities subject to interest rate risk</b>	<b>(40)</b>	<b>-</b>	<b>(562)</b>	<b>(61)</b>	<b>(182)</b>	<b>(845)</b>

# GLOBAL BOND FUND

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018

### 10. FINANCIAL RISK MANAGEMENT (Continued)

	2017					Total \$'000
	Within 6 months \$'000	Between 6-12 months \$'000	Between 1-2 years \$'000	Between 2-5 years \$'000	Over 5 years \$'000	
<b>ASSETS</b>						
Cash and Cash Equivalents	833	-	-	-	-	833
International interest-bearing securities	24,312	6,756	15,227	34,229	64,947	145,471
Interest-bearing securities - repurchase agreements	(12,380)	-	-	-	-	(12,380)
Derivatives held for trading	-	-	-	24	697	721
<b>Total financial assets subject to interest rate risk</b>	<u>12,765</u>	<u>6,756</u>	<u>15,227</u>	<u>34,253</u>	<u>65,644</u>	<u>134,645</u>
<b>LIABILITIES</b>						
Overdraft	(63)	-	-	-	-	(63)
Derivatives held for trading	-	-	-	(482)	(760)	(1,242)
<b>Total financial liabilities subject to interest rate risk</b>	<u>(63)</u>	<u>-</u>	<u>-</u>	<u>(482)</u>	<u>(760)</u>	<u>(1,305)</u>

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 2017. 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 2018.
- 2) Changes in fair value of investments for the year based on revaluing fixed rate financial assets at 31 March 2018.

	2018			
	Sensitivity of interest income		Sensitivity of changes in fair value of investments	
	100 basis points increase \$'000	100 basis points decrease \$'000	100 basis points increase \$'000	100 basis points decrease \$'000
Cash at banks	26	(26)	-	-
International interest-bearing securities	103	(103)	(9,173)	10,284
Derivatives held for trading	-	-	2,746	(3,423)

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

# GLOBAL BOND FUND

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018

### 10. FINANCIAL RISK MANAGEMENT (Continued)

#### 10c. 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 2).

There are no financial assets 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 credit 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.

2018					
	AAA to AA- \$'000	A+ to A- \$'000	BBB+ to B- \$'000	CCC+ to C- \$'000	Total \$'000
International interest-bearing securities	71,359	43,531	50,451	840	166,181
Derivatives held for trading	1,375	2,488	116	-	3,979
	<u>72,734</u>	<u>46,019</u>	<u>50,567</u>	<u>840</u>	<u>170,160</u>

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>

#### 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.

		2018		2017	
		Balance	Credit	Balance	Credit
		\$'000	rating	\$'000	rating
ANZ		83	AA-	83	AA-
BNP Paribas		2,512	A	750	A
Westpac		-	AA-	-	AA-
		<u>2,595</u>		<u>833</u>	

# GLOBAL BOND FUND

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018

### 10. 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) (2017: 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.

#### 10d. 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.

#### 2018

	Statement of Financial Position \$000	Contractual cash flows \$000	Within 6 months \$000	Between 6- 12 months \$000	Between 1- 5 years \$000	Over 5 years \$000
Derivative assets held for trading	5,184					
<i>Inflow</i>		370,648	363,203	6,424	929	92
<i>Outflow</i>		(366,409)	(359,630)	(6,149)	(563)	(67)
Derivative liabilities held for trading	(6,368)					
<i>Inflow</i>		383,453	378,067	1,248	1,015	3,123
<i>Outflow</i>		(390,557)	(383,029)	(1,641)	(1,841)	(4,046)

#### 2017

	Statement of Financial Position \$000	Contractual cash flows \$000	Within 6 months \$000	Between 6- 12 months \$000	Between 1- 5 years \$000	Over 5 years \$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)

# GLOBAL BOND FUND

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018

### 10. FINANCIAL RISK MANAGEMENT (Continued)

#### 10e. 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 summarises the Fund's exposure to currency risk in New Zealand dollar value of the financial instruments.

	2018						
	AUD \$'000	CAD \$'000	EUR \$'000	GBP \$'000	JPY \$'000	USD \$'000	Other \$'000
<b>Assets and liabilities</b>							
Foreign currency cash balances held (NZD)	36	(23)	149	156	6	3,289	152
Investment securities held at fair value through profit or loss	2,269	7,641	26,256	16,070	20,176	76,471	17,383
Derivatives held for trading	(853)	(7,648)	(30,295)	(12,215)	(19,822)	(97,991)	(2,394)
Receivables/(payables)	5	42	509	(665)	-	494	206
<b>Total financial assets and liabilities</b>	<b>1,457</b>	<b>12</b>	<b>(3,381)</b>	<b>3,346</b>	<b>360</b>	<b>(17,737)</b>	<b>15,347</b>

	2017						
	AUD \$'000	CAD \$'000	EUR \$'000	GBP \$'000	JPY \$'000	USD \$'000	Other \$'000
<b>Assets and liabilities</b>							
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)
<b>Total financial assets and liabilities</b>	<b>(527)</b>	<b>60</b>	<b>(1,103)</b>	<b>(1,288)</b>	<b>(75)</b>	<b>(189)</b>	<b>2,637</b>

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.

	2018		2017	
	Profit or loss and Unitholders' Funds		Profit or loss and Unit Holders' Funds	
	10% increase \$'000	10% decrease \$'000	10% increase \$'000	10% decrease \$'000
<b>Assets and liabilities</b>				
Foreign currency cash balances held (NZD)	(376)	376	(530)	530
Investment securities held at fair value through profit or loss	(16,627)	16,627	(13,310)	13,310
Derivatives held for trading	17,122	(17,122)	13,497	(13,497)
Receivables/(payables)	(59)	59	391	(391)
	<b>60</b>	<b>(60)</b>	<b>48</b>	<b>(48)</b>

# GLOBAL BOND FUND

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018

### 10. FINANCIAL RISK MANAGEMENT (Continued)

#### 10f. 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 2018 and 31 March 2017.

	2018					
	Related amounts not set-off in the statement of financial position					Net amount
	Gross amounts of recognised financial instruments	Gross amounts of recognised financial instruments set-off in the statement of financial position	Net amounts of financial instruments presented in the statement of financial position	Financial instruments	Cash collateral received/pledged	
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Total derivative assets	4,992	-	4,992	(1,681)	-	3,311
Total derivative liabilities	(6,329)	-	(6,329)	1,681	-	(4,648)

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



# GLOBAL BOND FUND

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2018

### 11. SEGMENT INFORMATION

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

	<b>2018</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>
United Kingdom	326	(17)
Euro Zone	669	625
United States of America (USA)	2,189	1,836
Americas (excluding USA)	206	(105)
Other	37	88
	<b><u>3,427</u></b>	<b><u>2,427</u></b>

### 12. COMMITMENTS AND CONTINGENCIES

The Fund had no commitments or contingencies as at 31 March 2018 (2017: none).

### 13. EVENTS AFTER THE REPORTING YEAR

Since 31 March 2018 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 2018 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 2018;
- 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 \$1,779,000 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
<b>Carrying amount of investments</b>	
The fund's portfolio of investments makes up 93.4% 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.	<p>Our audit procedures included:</p> <ul style="list-style-type: none"><li>— 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</li><li>— agreeing a sample of the 31 March 2018 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</li><li>— agreeing investment holdings to confirmations received from the administration manager</li></ul> <p>We did not identify any material differences in relation to the carrying amount of investments.</p>



## 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 unitholders as a body. Our audit work has been undertaken so that we might state to the unitholders those matters we are required to state to them in the Independent Auditor's Report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the unitholders as a body for our audit work, this report, or any of the opinions we have formed.

## GLOBAL BOND FUND



### 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:

<http://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-2/>

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

The engagement partner on the audit resulting in this independent auditor's report is Graeme Edwards

For and on behalf of

KPMG  
Wellington

24 May 2018