NIKKO AM NZ CORPORATE BOND FUND

Monthly Fact Sheet 28 February 2017

Investment objective

The objective of the Fund is to construct a portfolio of permitted investments that outperform the Fund's benchmark return by 1.5% per annum over a rolling three year period before fees, expenses and taxes.

Benchmark

Bloomberg NZBond Govt 0+ Yr Index (from 1 July 2016)

Fund description

The Fund is designed to provide regular income by constructing an actively managed investment portfolio of New Zealand bonds, deposits and cash, while protecting the capital value of investors' funds.

The Fund gains its exposure by investing directly into market securities and is managed by the Nikko AM NZ Fixed Income team.

Distributions

Quarterly. Last business days of March, June, September and December.

Currency management

Foreign currency exposures created as a consequence of capital markets investments are hedged to NZD within an operational range of 97.5% to 102.5%.

Management fees and other charges

A management fee of 0.70% per annum calculated as a percentage of the net asset value of the Fund will be deducted from the Fund.

Nikko AM may also recover expenses (including the Trustee fee) from the Fund up to a maximum of 0.25% per annum of the Fund's net asset value. As at the time of publication these expenses are estimated to be 0.08% per annum.

Buy/sell spread

Nil

Investment restrictions

Below are the investment ranges for the credit rating exposures and the sector limits in which the Fund will primarily invest.

Refer to the SIPO for full details of permitted investments and restrictions.

Credit Rating	Fund Exposures	Maximum exposure per issuer
AAA	0% ⇔ 100%	15.0%
AA- to AA+	0% ⇔ 100%	10.0%
A- to A+	0% ⇔ 80%	7.5%
BBB- to BBB+	0% ⇔ 30%	5.0%

Sector Limits	Maximum
NZ Government, Government Department or Government Guaranteed	100%
NZ Corporate and Bank Debt	100%
NZD Kauri Bonds	40%
Offshore issued NZ Corporate Debt Hedged to NZD	20%
NZ Mortgage Backed and Asset Backed Securities	20%

Performance

(NZD returns; before tax, after fees and expenses)

1 month	3 months	6 months	1 year
0.86%	0.64%	-1.04%	2.77%

2 years (pa)	3 years (pa)	5 years (pa)	Inception (pa)*
4.41%	5.62%	5.84%	6.60%

* July 2009

Distributions

Cents per unit	Mar	Jun	Sep	Dec
2016	1.15	0.85	0.90	1.20
2015	1.25	1.30	1.20	0.75
2014	1.60	0.80	1.50	1.25
2013	1.30	1.30	0.80	1.10

Asset allocation (% of fund)

Corporate bonds	38.9%
NZ registered banks	49.3%
Local authority	6.0%
NZ government and government equivalent	5.8%

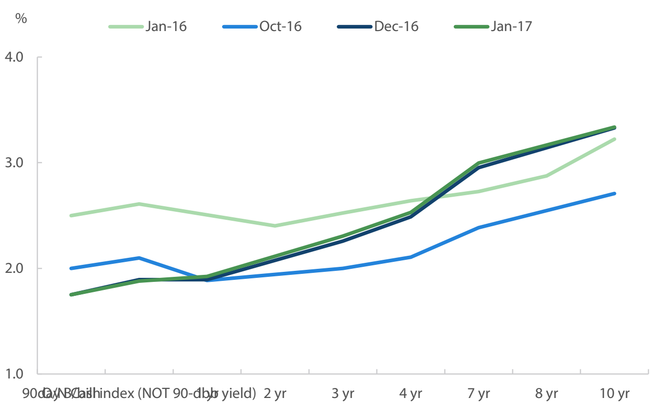
Credit rating profile

S&P rating	% portfolio	Number of holdings
AAA	3.5%	11
AA	48.8%	51
A	21.5%	21
BBB	26.2%	29

Duration and yield

Duration	Fund 3.36 years versus benchmark 4.45 years
Yield	Fund (gross) 3.85% versus benchmark 2.61%

New Zealand yield curve



Top 10 issuers (% of fund)

ANZ Bank	9.0%	Fonterra Coop	5.9%
Westpac Bank	8.0%	NZ Government	5.8%
BNZ	7.4%	Transpower	4.5%
ASB	6.7%	Power Co	4.5%
Rabobank	6.1%	Auck Intl Airport	4.0%

Commentary

The Nikko Corporate Bond Fund returned 0.86% (net of fees) for February. For the month the Bloomberg NZ Government Bond Index produced a return of 0.79% while the All Swap index returned 0.76%, and the S&P NZ Bond Corporate A Index returned 0.78%.

NZ interest rates finished lower in yield over the month. The NZ Government 2019 bond finished lower in yield by 15 basis points (2.17%), the NZ Government 2027 bond was 12 basis points lower (3.24%), and the NZ Government 2033 finished 9 basis points lower in yield (3.60%).

Swap spreads to government bonds were virtually unchanged at the end of the month with the upward shape of the yield curve between the 2 and 10-year swap rates at a spread of +1.13%. NZ credit margins were stable to slightly narrower over the month although there has been limited market activity to test investor interest. A higher running yield of corporate holdings and yield curve positioning was of benefit to the Fund over the month.

The NZ economy remains in expansionary mode supported by high population growth, strong tourism and construction sectors. Rising commodity prices together with improved consumer and business sentiment, has also improved the New Zealand and global outlook.

In a recent speech, the RBNZ Governor said risks around future Official Cash Rate movements are equally weighted, reflecting balanced risks around inflation. The Bank sees the balance of risks for the global outlook to be to the downside highlighting ongoing surplus capacity and rising geo-political uncertainty. Global headline inflation has increased, partly due to rising commodity prices. Long term rates have also increased however monetary policy is expected to remain stimulatory, but less so than in the past, especially in the United States.

We are expecting a prolonged period of 'no change' in the OCR however expect the next change will be an increase. Longer term NZ Interest rates will continue to be influenced by the direction of US rates. The Trump administration will continue to be a source of surprises and the US fiscal stimulus that is expected to be delivered via tax cuts to 'middle' Americans and infrastructure spending is subject to significant implementation risk. If policy initiatives are not fully implemented the optimism currently priced into markets may well prove to be unfounded.

We do not expect large movements of interest rates in New Zealand over the near term however a reasonable amount of financial market volatility is to be expected. This volatility may open up investment opportunities in the months ahead.