Nikko Asset Management

NIKKO AM NZ BOND FUND

Monthly Fact Sheet 30 April 2017

Investment objective

The objective of the Fund is to construct a portfolio of permitted investments that outperform the Fund's benchmark return by 1.0% 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 aims to provide investors with regular income by constructing an actively managed investment portfolio of New Zealand bonds, deposits and cash with the potential for capital gain from New Zealand dollar fixed interest markets.

The Fund gains its investment exposure by investing into the Nikko AM Wholesale NZ Bond Fund which is managed by the Nikko AM NZ Fixed Income team.

Distributions

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

Management fees and other charges

A management fee of 0.60% 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 0.125% per annum.

Buy/sell spread

Nil

Investment restrictions

Nikko AM Wholesale NZ Bond Fund

- A minimum of 25% of the wholesale fund is to be invested in securities issued or guaranteed by the New Zealand Government or securities accepted by the RBNZ's Overnight Reserve Repo Facility.
- A minimum of 50% of the wholesale fund is restricted to debt securities with a credit rating equal to or higher than New Zealand Government.
- Minimum of 95% of the wholesale fund to be invested in assets rated A- or better.
- Portfolio modified duration range of +/- 1.5 years around index duration.
- Cash and cash equivalent investments must have a minimum credit rating of Standard & Poor's A1 short-term and A long-term.

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

Performance

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

1 month	3 months	6 months	1 year
0.70%	2.15%	-0.25%	1.91%

2 years (pa)	3 years (pa)	5 years (pa)	Inception (pa)*
4.10%	5.39%	4.80%	5.71%

* January 2011

Distributions

Cents per unit	Mar	Jun	Sep	Dec
2017	0.20			
2016	1.40	1.25	1.05	1.25
2015	0.90	1.25	1.15	1.30
2014	0.90	0.50	0.80	0.80

Asset allocation (% of fund)

Government stock	27.7%
SOE and local authority	18.7%
NZ registered banks	39.8%
Corporate debt	13.8%

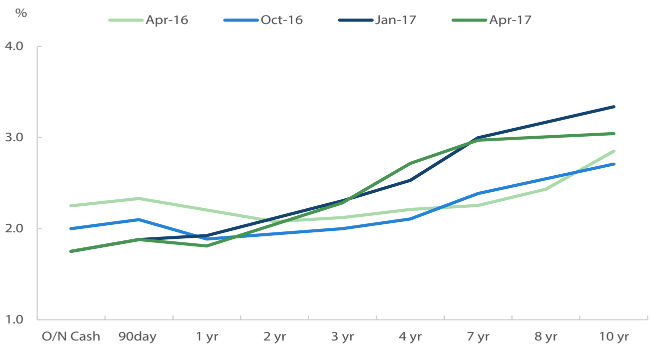
Credit quality (% of fund)

AAA	11.0%
AA	66.4%
A	18.3%
BBB	4.3%

Duration and yield

Duration	Fund 3.98 years versus benchmark 4.55 years
Yield	Fund (gross) 3.45% versus benchmark 2.5%

New Zealand yield curve



Top 5 corporate issuers (% of fund)*

NZ Local Government Funding Agency	11.9%
Westpac Banking Corporation	8.3%
BNZ	7.7%
RaboBank	6.2%
Fonterra Co-operative	5.9%

* excludes central government

Market commentary

The higher portfolio running yield and a moderate contraction in credit margins was a positive for performance. We favour credit to perform better than similar maturities of Governments and we are currently holding closer to minimum levels of NZ Government bonds. The small underweight duration position was a detractor on performance, as was yield curve positioning as the fund has an underweight position in long maturities bonds which were the best performers over the month.

Market commentary

The month of April was another good month for NZ bonds as interest rates moved lower in yield. Over the month there was a reasonably large difference in performance across the different sectors of the NZ bond market. The Bloomberg NZ Government Bond index returned 0.79%, The NZX 1-10 year swaps retuned 0.49%, and the Corporate A 0.59%. A large amount of the difference was due to the comparatively larger fall in yield for the longer NZ Government bond 2033 and 2037 maturities which fell in yield by 22.5 bps and 26 bps respectively outperforming shorter bond maturities substantially. The longer NZ Government bonds saw strong demand from offshore investors as NZ interest rates remain comparatively high and the lower NZ dollar allowed cheaper entry.

Interest rates have continued to move lower over 2017, and the volatility in financial markets has generally been low. Markets have recalibrated how much "optimism' should be reflected in interest rate levels given Trump has been frustrated in his efforts to fully instigate his policy changes and subsequently there has been a shift to downgrade the lift in US growth and inflation due to the new administration's policies.

NZ credit margins have contracted moderately and credit has generally outperformed similar maturities of swap and governments. The portfolios have benefited from having higher weightings to credit with both a higher running yield and margin contraction. New bond issuance to the local market has remained relatively limited so far this year which has helped support secondary demand. We continue to have a positive view on credit and expect having a higher portfolio running yield will be one of the main attributors to outperformance over the course of this year. We prefer to hold more mid curve maturity (4-7 years) credit rather than longer government bonds that have a lower yield and greater interest rate risk. At this stage we expect movements in NZ bond yields to remain relatively muted, but we may adjust the fund duration if we see opportunities. In September the Reserve Bank Governor will retire and be replaced for six months (as an interim measure) by his deputy. Also in September is the NZ general election which may bring the possibility of some uncertainty to markets.

The NZ economy continues to perform well although forecasters expect some slowing of activity with capacity constraints in sectors such as construction. The Reserve Bank has indicated they see stable cash rates with risks evenly balanced at present, this should help anchor the front end of the yield curve at current levels. Credit/housing related excesses are being more actively curtailed, which lessens the odds of imbalances building. High immigration is growth positive, but momentum is broad based and numerous support factors remain, which should allow annual GDP growth to hover around 2.5-3% over 2017.