NIKKO AM NZ BOND FUND

Monthly Fact Sheet

Why Nikko Asset Management NZ?

As New Zealand's only dedicated global investment manager, Nikko AM NZ pairs local knowledge and experience with significant global resources. We manage over $200 billion globally and around $5billion in New Zealand.

Fund overview

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.

Benchmark

Bloomberg NZBond Govt 0+ Yr Index

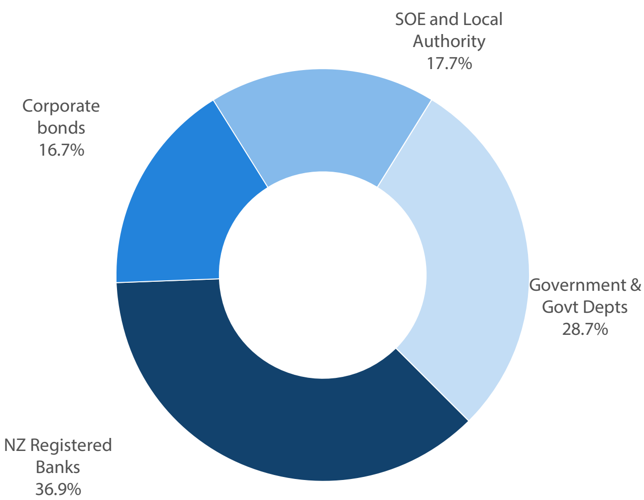
Performance objective

The aim is to outperform the benchmark by 1.00% per annum before fees, expenses and taxes over a rolling three year period.

Risk indicator

Standard deviation of returns before tax and after fees over a rolling 5 years to the last calendar quarter

Asset allocation



Portfolio management team

Fergus McDonald is Head of Bonds and Currency and is responsible for the investment of the Bond, Cash and Currency mandates.
Fergus has been actively involved in the NZ financial markets since 1981.

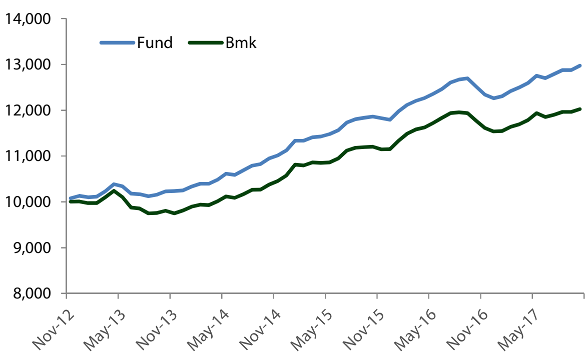
The portfolio management team for the domestic fixed income funds also includes Ian Bellow, Fixed Income Manager and Tim O'Loan, Fixed Income Analyst.

Performance returns

	Gross[1]	Benchmark	Net[2]
1 month	0.74%	0.51%	0.69%
3 months	1.45%	1.04%	1.26%
1 year	3.64%	2.15%	2.88%
2 years	4.59%	3.61%	3.78%
3 years (pa)	5.82%	5.03%	4.94%
5 years (pa)	5.35%	3.76%	4.47%
10 years (pa)	6.99%	6.12%	

1. Gross returns are before the deduction of fees and taxes
2. Net returns are before tax but after the deduction of fees and expenses.

Five year cumulative performance (gross) [1]



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Nikko Asset Management

Credit quality (% of fund)

AAA	9.9%
AA	71.2%
A	17.3%
BBB	1.6%

Top 5 corporate issuers (% of fund)*

NZ Local Government Funding Agency	13.4%
Bank of New Zealand	7.8%
Westpac Banking Corporation	7.5%
ANZ Bank New Zealand Limited	6.5%
Fonterra Co-operative	5.9%

* excludes central government

Duration and yield

Duration	Fund 4.11 years vs benchmark 4.40 years
Yield	Fund (gross) 3.10% vs benchmark 2.39%

Key fund facts

Strategy launch date
October 2007

Fund structure
PIE fund – wholesale and retail

Fees in retail fund:
Management fee 0.60%p.a
Expenses (maximum) 0.25%p.a
Expenses (current) 0.125%p.a

Buy/sell spread
nil

Distributions
Calendar quarter

Benchmark
Bloomberg NZBond Govt 0+ Yr Index

Hedging
All investments will be in New Zealand dollars

Compliance

The Fund complied with its investment mandate, SIPO and trust deed during the month

Market commentary

The Bloomberg NZ Government Bond Index returned +0.51% for October. The Bloomberg Credit Index returned +0.67% and the Bloomberg 1-10 year swaps returned +0.69%.
NZ interest rates traded mostly higher in yield in a relatively modest range through October until the last few days of the month. Following the move lower in US interest rates, returns from NZ bonds were bolstered by a move lower in yields, with NZ interest rates finishing around 5-10bps lower in yield across the curve.

During the course of the month there was some concern over bond markets (particularly the US) pushing higher in yield. Economic data was generally strong and there was speculation a newly appointed to Fed governor could have a more hawkish bias to higher interest rates. Rarely do markets move of late in a straight line and October saw an unwind of the previous moves higher in yield; this helped to produce a good monthly return from NZ bonds. The uncertainty around the NZ election and who would form the new government had more impact on the NZ dollar than bonds markets, and NZ assets are now cheaper for offshore buyers. Longer maturity NZ bonds continue to be heavily influenced by offshore moves, although the new government may have more of an impact on local financial markets as we get more details on policy. Government finances appear to be in good order for the hand over and we don't expect much in the way of negative news to impact government bond issuance in the near term. On a sector basis, maturities of swap outperformed similar maturities of government bonds and swap spreads narrowed due to larger falls in yield. Longer dated maturities of swaps that have more price exposure to movements in interest rates were some of the best performers. Credit holdings also performed strongly benefiting from the contraction in swap and some further contraction in credit margins following strong demand for bonds in the secondary market after some large bond maturities.
The global economic outlook continues to improve and we appear to have seen the low in yields for this year. There is no longer an expectation of additional monetary easing and central banks are on hold, or moving closer to a slow and cautious approach for reducing stimulus. The ECB reinforced that they will need to keep interest rates low for quite some time. The US Fed is beginning to unwind their bond buying program and have signaled a gradual approach to further rate increases. Expectations are for inflation to recover but so far lower than expected inflation outcomes have reduced expectations for higher interest rates. The RBNZ continues to keep the OCR on hold and this should help to support short to medium term bond maturities from moving much higher in yield.

Fund commentary

The fund performed well over the month. The fund is holding an overweight to corporate bond holdings. This sector was generally the best performing part of the NZ bond market due to the benefit of a higher running yield, outperformance by swap and a small move lower in credit margins on some holdings. The shorter duration positioning was not a significant detractor to performance given movements in government bonds were only 5-10 basis points lower in yield. Over the month we added some new corporate holdings. We prefer to have a slightly shorter duration than benchmark with less exposure to potentially rising interest rates. Balancing this we want to maintain a higher yield on the fund through holding credit maturities out to mid curve providing pricing makes sense.

Contact us

www.nikkoam.co.nz | nzenquiries@nikkoam.com