

NIKKO AM NZ BOND FUND

Monthly Fact Sheet

Why Nikko Asset Management NZ?

As a dedicated global investment manager Nikko AM NZ pairs local knowledge and experience with significant global resources. The Nikko group manages over US\$200 billion globally, including around NZ\$5 billion 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.

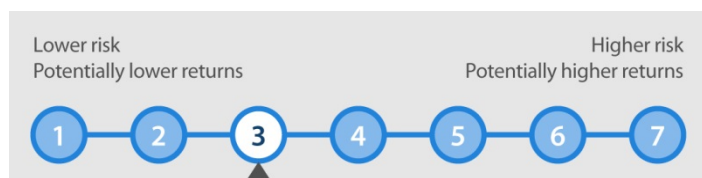
Benchmark

Bloomberg NZBond Govt 0+ Yr Index

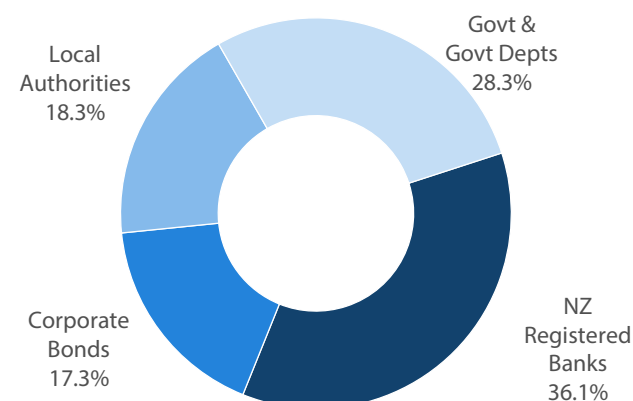
Performance objective

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



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.



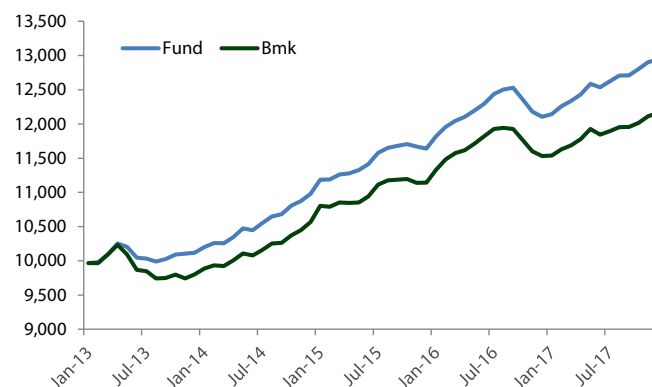
The portfolio management team for the domestic fixed income funds includes Ian Bellow, Fixed Income Manager and Tim O'Loan, Fixed Income Analyst.

Performance returns

	Gross ¹	Benchmark	Net ²
1 month	0.28%	0.36%	0.20%
3 months	1.81%	1.69%	1.62%
1 year	6.91%	5.43%	6.12%
2 years	5.44%	4.46%	4.62%
3 years (pa)	5.64%	4.79%	4.76%
5 years (pa)	5.29%	3.98%	4.42%
10 years (pa)	6.98%	6.16%	

- Gross returns are before the deduction of fees and taxes
- Net returns are before tax but after the deduction of fees and expenses including tax credits (if any).

Five year cumulative performance (gross) ¹



Credit quality (% of fund)

AAA	10.0%
AA	67.6%
A	19.7%
BBB	2.7%

Top 5 corporate issuers (% of fund)*

NZ Local Government Funding Agency	12.4%
Bank of New Zealand	7.6%
ANZ Bank New Zealand Limited	6.4%
Fonterra Co-operative	6.3%
Westpac Banking Corporation	5.5%

*excludes central government

Duration and yield

Duration	Fund 4.16 years vs benchmark 4.73 years
Yield	Fund (gross) 3.05% vs benchmark 2.29%

Key fund facts

Strategy launch date October 2007	Buy/sell spread nil
Strategy FUM \$324.6m	Distributions Calendar quarter
Fund structure PIE fund – wholesale and retail	Benchmark Bloomberg NZBond Govt 0+ Yr Index
Fees in retail fund: Management fee 0.60%p.a Expenses (maximum) 0.25%p.a Expenses (current) 0.125%p.a	Hedging All investments will be in New Zealand dollars

Market commentary

The Bloomberg NZ Government Bond Index returned +0.36 % for December. The Bloomberg Credit Index returned +0.23% and the Bloomberg 1-10 year swaps returned -0.11%.

NZ bonds have performed well over the 2017 year; interest rates moved lower in yield and credit performed well due to a higher running yield and a reasonable contraction in credit margins as demand for yield remained strong.

Over December performance was mixed across the different sectors of the NZ bond market. NZ government bonds were generally the best performers as yields moved slightly lower, swaps underperformed as they moved marginally higher in yield widening in spread relative to similar maturities of government bonds.

In yield movements, NZ government bonds finished 7 basis points lower in yield, the mid curve 5-7 year maturities and the 2037 maturity were the better performers, whereas the 10 year was

unchanged. Swaps moved higher in yield with the 1 year rate 3-basis points higher and longer maturity swap rates 7-10 basis points higher in yield. This move has expanded swap margins to similar maturities of government bonds out to spreads of around 45 basis points which is the widest level for some time. The positive shape of the yield curve was little changed with a spread of 0.93% between the 2 year and 10 year swap rates.

The NZ Government Bond Index extended duration mid-month by approximately 0.4 years which may have also added to demand. Credit has had a very good year and it would be optimistic to expect much more margin contraction from current levels, although we don't expect margins will expand significantly while the demand/supply dynamics remain supportive.

The sentiment on NZ had been surprisingly negative through the last quarter although we note the NZ dollar had a reasonably strong recovery into year-end and NZ bond yields finished close to annual lows. The global economic outlook continues to improve and commodity prices have had a reasonable recovery. There is no longer an expectation of additional monetary easing and central banks are on hold, or moving to a slow and cautious approach for reducing stimulus. There has been strong growth from the Euro area and the US Fed is beginning to unwind their bond buying program and have signalled a gradual approach to further rate increases. With the growth outlook improving, one of the big questions for bond markets will be expectations for inflation but so far lower than expected inflation outcomes have reduced expectations for higher interest rates. NZ may be more vulnerable to higher inflation expectations if the NZD is lower and we start to see an increase in wage inflation.

Fund commentary

The fund underperformed over the month as credit holdings failed to keep pace with the move lower in government bond yields. Credit margins generally narrowed, however swap rates moved higher expanding margins relative to governments over the month. These movements made it difficult for the fund to keep pace with the index. The shorter duration positioning was a small detractor to performance as yields moved lower. The higher running yield and some credit margin contraction remained a positive. Over the month we added some new corporate holdings. Performance over the 2017 year was very strong.

Compliance

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

Contact us

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Important Information

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