

NIKKO AM CORPORATE 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

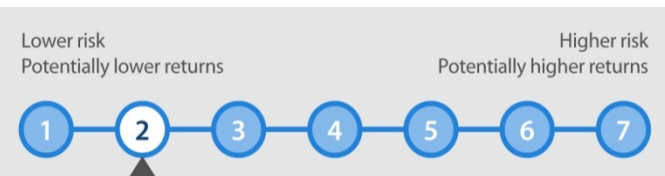
Bloomberg NZBond Govt 0+ Yr Index

Performance objective

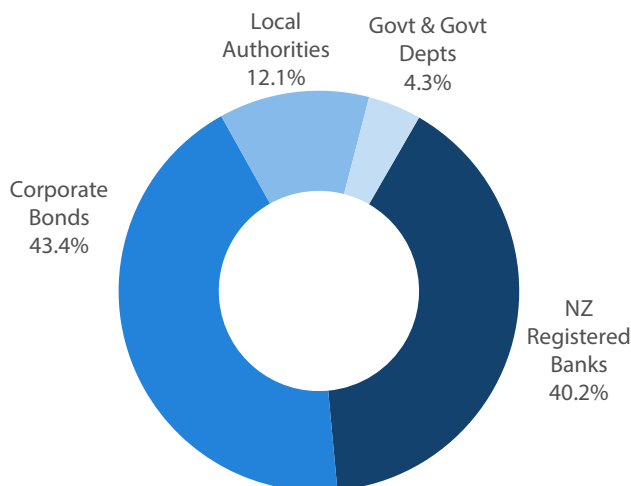
The aim is to outperform the benchmark by 1.50% per annum before fees, expenses and taxes over a rolling three year period.

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.



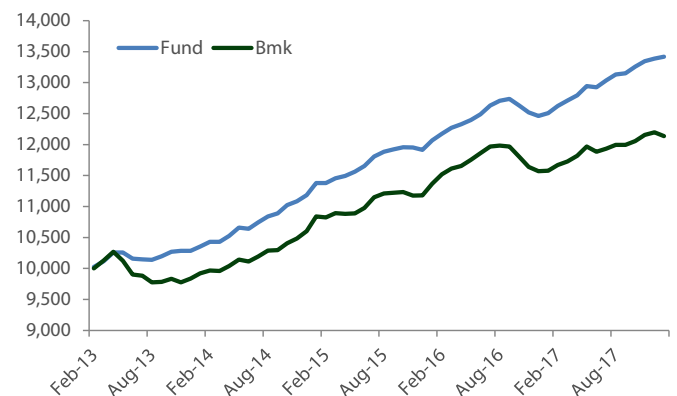
The portfolio management team for the domestic fixed income funds includes Ian Bellow, Fixed Income Manager and Tim O'Loan, Fixed Income Analyst.

Performance summary

	Gross ¹	Benchmark	Net ²
1 month	0.23%	-0.50%	0.18%
3 months	1.20%	0.66%	0.99%
1 year	7.27%	4.84%	6.42%
2 years	5.44%	3.33%	4.58%
3 years (pa)	5.64%	3.83%	4.75%
5 years (pa)	6.05%	3.95%	5.16%

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

Five year cumulative performance (gross) ¹



Credit quality (% of fund)

AAA	2.6%
AA	51.3%
A	22.4%
BBB	23.7%

Top 5 corporate issuers (% of fund)

Westpac New Zealand Ltd	7.21%
Bank Of New Zealand	6.97%
ANZ Bank New Zealand Ltd	6.46%
Fonterra Cooperative Group	6.28%
Kiwibank	5.60%

Duration and yield

Duration	Fund 3.63 years vs benchmark 4.63 years
Yield	Fund (gross) 3.4% vs benchmark 2.35%

Key fund facts

Strategy launch date July 2009	Distributions Calendar quarter
Strategy FUM \$250.3m	Benchmark Bloomberg NZBond Govt 0+ Yr Index
Fund structure PIE fund – wholesale and retail	Hedging All investments will be in New Zealand dollars
Fees in retail fund: Management fee 0.70%p.a Expenses (maximum) 0.25%p.a Expenses (current) 0.08%	
Buy/sell spread Nil	

Market commentary

The Bloomberg NZ Government Bond Index returned -0.50% for January. The Bloomberg Credit Index returned +0.30% and the Bloomberg 1-10 year swaps returned +0.01%.

Bond markets in general had a tough start to the year as interest moved higher in yield on a more optimistic outlook for global growth. On a positive note NZ bonds have been one of the better performing markets as NZ interest rates have not moved as high in yield in comparison to some other bond markets.

Contact us

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Important Information

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On a NZ bond sector basis government bonds were the worst performers over the month. Swap rates performed well in comparison to governments reversing the widening in their margins which occurred in December. Shorter maturity swaps finished 2-4 basis points lower in yield and mid to long term swaps from 1 - 10 basis points higher in yield. The best performing sector was credit, credit issues benefited from some contraction in swap margins and a further contraction in credit spreads as the supply demand dynamics remained very supportive with limited supply of bonds outside of Kauri issuance. The positive shape of the yield curve between the 2 and 10 year swap rates steepened over the month from 0.93% to 1.08%. In summary funds with shorter duration positioning, and higher weightings to credit versus government bonds performed best over the month.

Financial markets have started the year with generally more positive expectations for growth and recovering inflation. This upgrade in expectations has flowed through to an increase in volatility which may be somewhat of an adjustment for financial markets given we have been in such a low volatility environment for some time. Global bond yields have continued to move higher in yield lead by the US; however we have perhaps been surprised by how well NZ bonds have performed on a relative basis. This supports the story that demand for NZ bonds remains strong with maturing bond monies being reinvested by retail and institutional investors and NZ credit has continued to perform well despite some headwinds for risk assets.

The sentiment on the NZ economy has improved with a better global backdrop, but the RBNZ has revised near term forecasts for growth and inflation down and continue to expect the OCR to remain on hold for some time. With the global growth outlook improving on a coordinated basis one of the big questions for bond markets will be expectations for inflation. Although we don't have much higher inflation outcomes as a base case at this stage it is definitely a risk that the market is contemplating.

Fund commentary

The fund performed well versus its NZ government benchmark. We currently hold a very low weighting in governments. Credit was the best performing sector and government bonds the poorest performer moving higher in yield on a relative basis versus swaps and credit. The moderate short duration positioning was a positive as yields moved higher. Also adding value was the higher running yield and credit margin contraction.

Compliance

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