

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

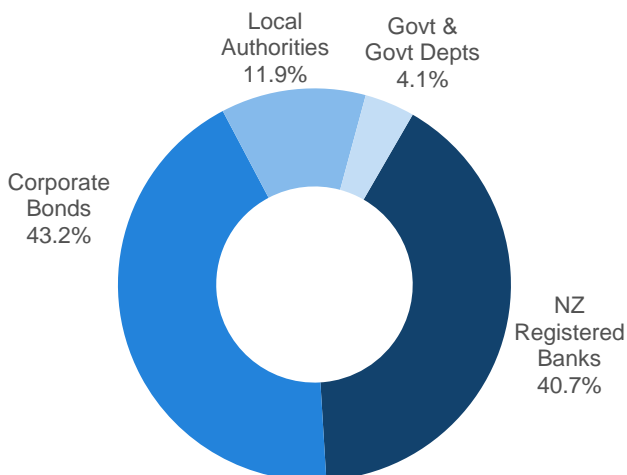
The aim is to outperform the benchmark by 1.50% per annum before fees, expenses and taxes over a rolling three year period.

Risk indicator

Standard deviation of returns before tax and after fees over a rolling 5 years to



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.



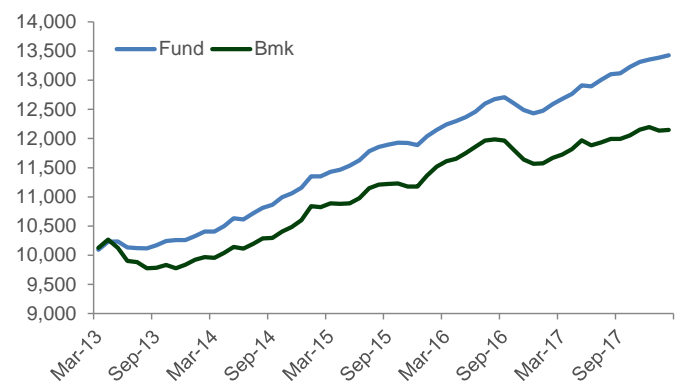
The portfolio management team for the domestic fixed income funds includes Ian Bellow, Fixed Income Manager and Tim O'Loan, Fixed Income Analyst.

Performance summary

	Gross ¹	Benchmark	Net ²
1 month	0.31%	0.10%	0.25%
3 months	0.86%	-0.04%	0.65%
1 year	6.62%	4.11%	5.77%
2 years	5.14%	2.70%	4.27%
3 years (pa)	5.75%	3.92%	4.87%
5 years (pa)	6.07%	3.97%	5.18%

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	2.5%
AA	51.0%
A	22.8%
BBB	23.7%

Top 5 corporate issuers (% of fund)

ANZ Bank New Zealand	7.0%
National Australia Bank	6.8%
Commonwealth Bank of Australia	6.7%
Westpac New Zealand	6.3%
Fonterra Cooperative Group	6.2%

Duration and yield

Duration	Fund 3.56 years vs benchmark 4.58 years
Yield	Fund (gross) 3.37% vs benchmark 2.35%

Key fund facts

Strategy launch date July 2009	Distributions Calendar quarter
Strategy FUM \$255.9m	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 +0.10% for February. The Bloomberg Credit Index returned +0.23% and the Bloomberg 1-10 year swaps returned +0.22%.

The NZ bond market continued to perform well in comparison to offshore bond markets as interest rates moved higher in yield. The US 10 year bond finished the month 18 basis points higher in yield, whereas NZ interest rates were much more stable with the NZ 10 year bond finishing only 4 basis points higher in yield.

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NZ bond sectors returns were fairly similar across governments and swaps with credit holdings again the best performers as supply/demand dynamics remain supportive. Credit issues benefited from some contraction in longer swap margins and a further contraction in credit spreads as the supply-demand dynamics remained supportive with limited bond issuance. The positive shape of the yield curve between the 2 and 10 year swap rates flattened slightly over the month from 1.08% to 1.04%. Similar to last month, funds with shorter duration positioning, and higher weightings to credit versus government bonds performed best over the month.

Financial markets have continued to upgrade 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 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 the market is contemplating.

Fund commentary

The fund performed well compared to its NZ government benchmark as credit was the best performing sector. 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.

Important Information

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