

Fund manager

Nikko Asset Management New Zealand Limited (Nikko AM).

Nikko AM is Asia's premier global asset manager. We actively manage over NZ\$4.8 billion of investments for a diverse group of clients, including superannuation schemes, charitable trusts, KiwiSaver scheme providers, corporations and local government along with providing services to financial intermediaries through wrap platforms.

We offer investment management services in domestic sectors (equities, fixed interest and cash) through our Auckland-based investment team and employ offshore managers to manage global sectors (global equities, global bonds and alternative investments).

Portfolio managers

Fergus McDonald, Head of Bonds and Currency – Fergus is responsible for the investment strategy and portfolio construction of Bond, Cash and Currency mandates. He has been actively involved in the New Zealand financial markets since 1981 and has considerable experience in developing and managing a diverse range of fixed interest and option portfolios.

Ian Bellew, Fixed Income Manager – Ian joined Nikko AM in 1998 and is responsible for the implementation of investment strategy and day to day management of the fixed income and option portfolios. Ian also contributes to team decision making by analysing economic information and identifying global and domestic investment trends.

Fund launch

1 October 2007

Investment objective

The objective of the Fund is to construct a portfolio of authorised investments that earn a return in excess of 10% per annum measured over interest rates cycles before fees, expenses and taxes.

Investment philosophy

The Fund is managed by Nikko AM's fixed interest team. It is designed to provide regular quarterly income from an actively managed investment portfolio while protecting the capital value of investors' funds by investing in the Nikko AM NZ Corporate Bond Fund and the Nikko AM Wholesale Option Fund. The Fund is constructed to achieve a weighted average credit rating of A (Standard and Poor's rating) on capital invested.

The Nikko AM NZ Corporate Bond Fund invests in a diversified portfolio of corporate debt.

The Nikko AM Wholesale Option Fund invests into New Zealand Registered Banks with a minimum long term credit rating of A from Standard & Poor's, or equivalent from a recognised rating agency, producing a steady and secure income stream. The assets are then used as collateral security for derivatives, in particular selling options on long-term US Treasury Bonds. Options are also permitted to be sold on NZ, UK, Euro bloc or Australian Government stock.

Structure and taxation

The Fund vehicle is a Unit Trust and Portfolio Investment Entity (PIE) which is priced daily. Unit holders elect their own Portfolio Investment Rate. Information is provided to the IRD and unit holders on an annual basis.

PIE eligibility

Nikko AM may take any action it deems appropriate to ensure the Fund remains eligible to be a PIE. This includes the ability of Nikko AM to compulsorily withdraw a unit holder's units and pay the proceeds to that unit holder's nominated bank account.

Distributions

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

Hedging policy

Assets and liabilities are hedged to NZD at the discretion of the Manager.

Investment restrictions

	Range
Nikko AM NZ Corporate Bond Fund	60% – 80%
Nikko AM Wholesale Option Fund	20% – 40%

Management fees and other charges

A management fee of 0.80% per annum calculated as a percentage of the Net Asset Value of the Fund will be calculated and deducted from the Fund. This fee is calculated daily and is payable to Nikko AM. The management fee may be reduced or waived at our discretion.

Nikko AM may recover expenses (including the Trustee fee) up to a maximum of 0.25% per annum from the Fund.

Buy/sell spread

Nil

Trustee

Public Trust

Custodian

Public Trust as legal custodian, BNP Paribas Fund Services Australasia Pty Limited delegated as functional custodian.

Minimum investment

Initial investment	\$5,000
Further investments	\$1,000

The Manager may accept applications for investments below the minimum investment amount at its discretion.

Nikko AM NZ Unit Trusts (Retail)

Fund Summary

Nikko AM Income Fund

31 January 2016

Performance

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

1 month	3 months	6 months	1 year
1.07%	1.74%	4.00%	8.83%
2 years (pa)	3 years (pa)	5 years (pa)	Inception (pa)*
7.98%	6.78%	6.90%	7.83%

* October 2007

Distributions

cents per unit	Mar	Jun	Sep	Dec
2015	1.00	1.25	1.50	1.25
2014	1.50	1.00	1.50	1.00
2013	1.50	1.50	1.50	1.50
2012	1.50	1.00	1.00	1.50

Asset allocation

Nikko AM Wholesale Option Fund	30.9%
Nikko AM NZ Corporate Bond Fund	69.1%
Cash	0.0%

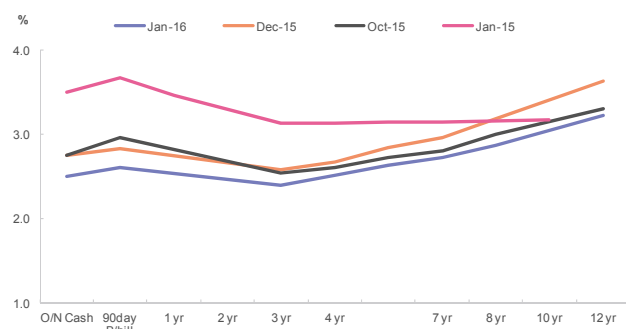
Top 5 corporate issuer exposures (% of fund)

Bank of New Zealand	5%
ANZ Bank New Zealand	5%
Rabobank	4%
ASB Bank Limited	4%
Fonterra Co-operative Group	4%

Corporate Bond Fund yield (gross)

3.83%

New Zealand yield curve



Commentary

The **Nikko AM Income Fund** is invested in the Nikko AM Wholesale Option Fund and the Nikko AM NZ Corporate Bond Fund.

The **Option Fund** returned 0.94% over January and continues to show little correlation to other asset classes with the return below the strong returns from bond markets, but significantly higher than equity market returns.

Yields on 10 year US Treasury Bonds have been steadily falling since the end of 2015. Yields closed the year at 2.29% and finished January 36 basis points lower at 1.93%. 2016 got off to a rocky start with a big fall in global equity markets resulting in increased market volatility and rising credit spreads. A big fall in oil and other commodity prices added to investor pessimism and the relative attractiveness of bond markets. Weaker Chinese economic data and concerns about the implications of large capital outflows and their impact on China's foreign reserves also played on investors nerves.

US economic data remained on the soft side. Manufacturing indicators, retail sales and durable goods orders are some of the softer indicators that caught the attention of markets and defied the recent strength in employment growth. The ECB indicated the Bank is looking to add to their existing easy monetary policy in March as the Eurozone economy continues to struggle while the Bank of Japan delivered the biggest shock to the market on the last trading day of the month when they moved to a new negative 10 basis point rate for new reserve deposits. The ultimate aim of this global stimulus is to increase economic growth and eventually interest rates should follow to higher levels. In our view, we are a long way from that occurring and in this environment it is likely the US Federal Reserve will apply their rate rise strategy cautiously.

The primary source of income for the **Corporate Bond Fund** is interest earned from a diversified portfolio of New Zealand investment grade bonds. It was a volatile start to the year for financial markets, and surprisingly similar to how 2015 started. Market sentiment has been fickle and price swings have seen "risk assets" experiencing some sharp falls in value, recoveries, and then further falls. Overall the general trend has been lower for equities, commodities and interest rates with increasing concerns around the pace of global growth.

Government bonds generally outperformed credit as it was not a great environment for credit with margins on banks and lower rated credit expanding in sympathy with offshore moves. Corporate names that are popular with retail investors are still managing to outperform, and we prefer to focus on issues that will likely have good secondary demand. There still appears to be some disconnect or limited differentiation between the pricing of credit margins across the credit rating spectrum. This can be explained in part by the limited supply and lack of name diversity to the market and also demonstrates how important an influence retail demand is for the New Zealand bond market as retail investors are happy to purchase local names that they know and understand.

The RBNZ left the cash rate unchanged at 2.5% but commented that "Uncertainty about the strength of the global economy has increased due to weaker growth in the developing world and concerns about China and other emerging markets. Prices for a range of commodities, particularly oil, remain weak. Financial market volatility has increased, and global inflation remains low. The domestic economy softened during the first half of 2015 driven by the lower terms of trade. However, growth is expected to increase in 2016 as a result of continued strong net immigration, tourism, a solid pipeline of construction activity, and the lift in business and consumer confidence."

This document is issued by Nikko Asset Management New Zealand Limited (Company No. 606057, FSP No. FSP22562) investment manager and promoter of the products included in this document. This information is for the use of researchers, financial advisers and wholesale clients. This material has been prepared without taking into account a potential investor's objectives, financial situation or needs and is not intended to constitute financial advice, and must not be relied on as such. Investors should consult an appropriately qualified financial adviser and the current Investment Statement, Prospectus or Information Memorandum. Applications to invest will only be accepted if made on an application form attached to that current Investment Statement or Information Memorandum. Past performance is not a guarantee of future performance. While we believe the information contained in this document is correct at the date of presentation, no warranty of accuracy or reliability is given and no responsibility is accepted for errors or omissions including where provided by a third party.

General Enquiries: NZenquiries@nikkoam.co.nz | +64 9 307 6363