nikko am
Nikko Asset Management

Nikko AM NZ Unit Trusts (Retail) — Fund Summary

Nikko AM NZ Corporate Bond Fund — 31 January 2016

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

July 2009

Investment objective

The objective of the Fund is to construct a portfolio of authorised investments that outperform the Fund's benchmark by 1.5% per annum over a rolling three year period before fees, expenses and taxes.

Benchmark

S&P/NZX NZ Government Stock Index

Investment philosophy

The Fund is managed by Nikko AM's fixed interest team and is designed to provide regular quarterly income whilst preserving the capital value of investors' funds.

It is constructed to achieve a weighted average credit rating of A (S&P rating) on capital invested.

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.

FundSource
New Zealand Fixed Interest
FUND MANAGER OF THE YEAR 2014

Note: Fund Manager of the Year Awards are announced by FundSource, the investment strategy and research company. These awards should not be read as a recommendation by FundSource. For further advice on the relevance of this award to your personal situation consult your authorised financial adviser, or visit www.fundsource.co.nz.

Distributions

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

Hedging policy

Assets and liabilities are hedged to NZD.

Investment restrictions

Below are the investment ranges for the credit rating exposures and the sector limits in which the Fund will primarily invest.

Credit Rating	Maximum exposure per Issuer	Range
AAA rated	15.0%	0% – 100%
AA- to AA+ rated	10.0%	0% – 100%
A- to A+	7.5%	0% – 80%
BBB- to BBB+	5.0%	0% – 30%
Unrated to BB+	n/a	0%

Sector Limits	
NZ Government or Government Guaranteed	100%
NZ Corporate Debt	100%
NZD Corporate Debt issued under Australasian documentation	50%
Offshore NZ Corporate Debt Hedged to NZD	20%
NZ Mortgage Backed Securities	20%
CDO's, CLO's and similar debt structures	0%

Management fees and other charges

A management fee of 0.70% per annum calculated as a percentage of the gross 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.

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

1 month	3 months	6 months	1 year
1.19%	0.71%	1.73%	5.12%
2 years (pa)	**3 years (pa)**	**5 years (pa)**	**Inception (pa)***
6.99%	5.52%	6.50%	7.09%

* July 2009

Distributions

cents per unit	Mar	Jun	Sep	Dec
2015	1.25	1.30	1.20	0.75
2014	1.60	0.80	1.50	1.25
2013	1.30	1.30	0.80	1.10
2012	1.40	1.80	1.25	1.75

Asset allocation

Corporate Bonds	31.6%
New Zealand Banks	48.2%
SOE and Local Authority	20.2%

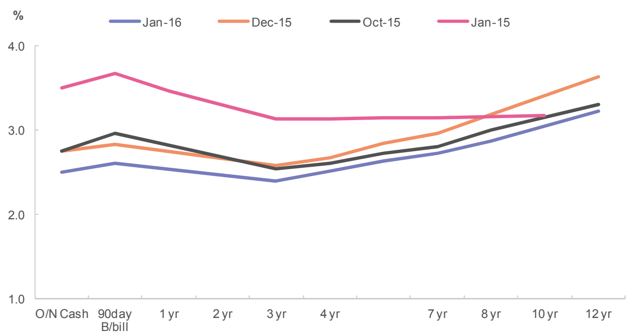
Credit rating profile

S&P Rating	% of portfolio	Number of holdings
AAA	0.7%	2
AA	46.1%	34
A	26.0%	20
BBB	27.2%	23

Duration and yield

Duration	Fund 3.83 years	vs benchmark 4.48 years
Yield (gross)	Fund 4.07%	vs benchmark 2.71%

New Zealand yield curve



Top 10 issuer exposures (% of fund)

Bank of New Zealand	8%	NZ Government	6%
ANZ Bank NZ	8%	Kiwibank	5%
Rabobank	7%	Westpac Banking	5%
ASB Bank	6%	Spark NZ	5%
Fonterra	6%	Auckland Intl Airport	4%

Commentary

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. The New Zealand Government Bond Index produced a return of 1.67% for the month while the All Swap Index returned 1.54%.

The New Zealand 10 year government bond yield started January at 3.57%, and declined to 3.22% through the month, and the 2 year government yield moved from 2.64% to 2.40%. Longer maturity bonds had larger falls in yield and subsequently performed better than mid curve and shorter maturity bonds. It was a similar story for New Zealand swap rates with the yield curve flattening in shape as the spread between the 2 year and 10 year swap rates narrowed to 78 basis points from 90 at year end 2015.

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. There was little New Zealand corporate issuance to gauge market appetite locally, although there was some Kauri issuance (by highly rated offshore borrowers issuing in New Zealand dollars) which received relatively limited support locally and resultantly was predominately placed to offshore holders and bank balance sheets. 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 buy local names that they know and understand. The steeper yield curve is typically of benefit to bond investors and we have been purchasing additional longer maturity bonds when suitable bonds have been available while selling shorter maturities to increase the portfolio running yield.

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.”

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