Nikko AM NZ Unit Trusts (Retail) — Fund Summary

Nikko AM Income Fund — 31 March 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

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.

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Nikko Asset Management

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

1 month	3 months	6 months	1 year
1.23%	2.56%	3.94%	9.24%
2 years (pa)	**3 years (pa)**	**5 years (pa)**	**Inception (pa)***
8.30%	6.74%	6.73%	7.86%

* October 2007

Distributions

cents per unit	Mar	Jun	Sep	Dec
2016	1.25			
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

Asset allocation

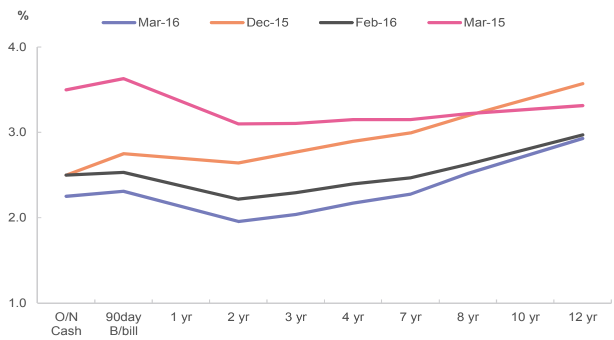
Nikko AM Wholesale Option Fund	35.1%
Nikko AM NZ Corporate Bond Fund	64.9%
Cash	0.0%

Top 5 corporate issuer exposures (% of fund)

Bank of New Zealand	6%
NZ Government	6%
ANZ Bank New Zealand	6%
Rabobank	4%
ASB Bank Limited	4%

Corporate Bond Fund yield (gross)
3.90%

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** performed strongly over March gaining 2.39%. The trading range for US 10 year Treasury bonds was a modest 30 basis points, ranging from 1.7% to 2.0% resulting in bond yields comfortably trading within the ranges established by the Fund's written call and put options. Federal Reserve officials held off from raising borrowing costs and scaled back forecasts for how high rates will rise this year, citing the potential impact from weaker global growth and financial market turmoil on the US economy. The Federal Open Market Committee kept the target range for the Federal Funds Rate at 0.25% to 0.5%. Updated projections of the Federal Funds Rate at 0.875% at the end of 2016 imply two 0.25% increases this year, down from four. In our view, even two increases may be one to many.

Federal Reserve Chair Janet Yellen said the Central Bank is monitoring a global economic slump, sharply lower oil prices and stock market turbulence which had hurt some US consumers and key sectors such as manufacturing. Yellen said that given the risk, the Fed will "proceed cautiously" in raising rates.

We remain of the view that US Treasury bonds will trade in a modest range over the next year, providing a good operating environment for the Option Fund.

The primary source of income for the **Corporate Bond Fund** is interest earned from a diversified portfolio of New Zealand investment grade bonds.

In combination with the March return New Zealand bond markets have produced a strong first quarter return as interest rates continued lower in yield. The Reserve Bank of New Zealand (RBNZ) cut interest rates by 25 basis points to 2.25% – a record low for NZ. The RBNZ would prefer a lower NZ dollar but the currency has been stubbornly strong as interest rate expectations have also fallen in other countries which has weakened their currencies relative to the NZ dollar.

The Corporate Bond Fund has underperformed the Government Stock Index. The main attributor to underperformance over the past quarter has been the widening of credit margins; neither the Government nor Swap benchmarks have any direct exposure to the negative impact of widening credit margins. Resultantly, returns from credit holdings have lagged governments and swap investments. Secondly, funds that have had a shorter duration (less interest rate risk) than their benchmark have underperformed in the falling interest rate environment as capital gains have been lower relative to the benchmark. Although cautious, we have been extending the duration of our credit holdings at these wider margin levels. Bond issues that appeal to retail investors are likely to remain well supported. For these reasons, although credit markets have been challenging, we are not overly negative and expect credit margins to peak this year. Predicting the exact timing of the peak or troughs in a cycle is difficult and we will be incrementally extending the duration of our credit holdings to take advantage of higher credit margins. Our investment horizon is the medium to long term and we continue to expect credit to add value over low yielding government and swap bond investments over the medium term. These higher yields should ultimately benefit with a positive shaped yield curve, as bonds roll down the yield curve and move lower in yield as they become closer to maturity.

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