Nikko AM NZ Unit Trusts (Retail) — Fund Summary

Nikko AM NZ Corporate Bond Fund — 30 April 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$4.9 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
0.34%	1.89%	2.62%	6.26%
2 years (pa)	**3 years (pa)**	**5 years (pa)**	**Inception (pa)***
7.23%	5.38%	6.46%	7.12%

* July 2009

Distributions

cents per unit	Mar	Jun	Sep	Dec
2016	1.15			
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

Asset allocation

Corporate Bonds	28.3%
New Zealand Banks	51.3%
SOE and Local Authority	20.4%

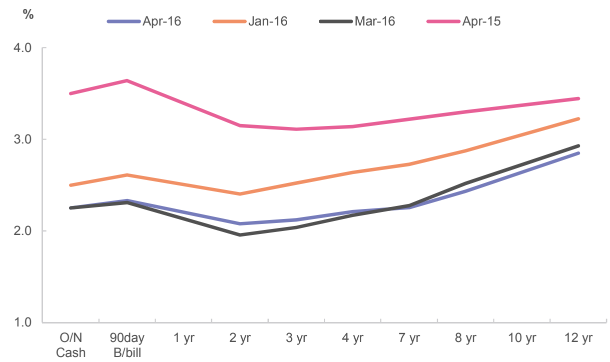
Credit rating profile

S&P Rating	% of portfolio	Number of holdings
AAA	0.5%	2
AA	52.9%	60
A	21.7%	24
BBB	24.9%	30

Duration and yield

Duration	Fund 3.6 years	vs benchmark 4.36 years
Yield (gross)	Fund 3.72%	vs benchmark 2.29%

New Zealand yield curve



Top 10 issuer exposures (% of fund)

ANZ Bank NZ	9%	NZ Government	7%
Bank of New Zealand	9%	Transpower	6%
Westpac Banking	9%	Fonterra	5%
ASB Bank	8%	Auckland Intl Airport	4%
Rabobank	7%	Auckland Council	4%

Commentary

Movements in New Zealand interest rates were relatively modest during April. The New Zealand yield curve flattened as short maturity bonds moved higher in yield while maturities 5 years and longer finished lower in yield. The spread between the 2 year and 10 year swap rates finished the month at 73 basis points. Swap rates moved in the same direction as government bonds but longer maturity swaps underperformed widening in spread as they failed to rally to the same extent as similar maturities of Governments. There has been a reasonable amount of interest in New Zealand assets with yields remaining high relative to other developed economies and the currency showing some stability.

New Zealand short term rates ticked higher in yield at month end. The RBNZ left the Official Cash Rate unchanged, and gave no sense that they are in any hurry to cut rates any lower than 2%, leaving the market with the possibly of one further 25 basis point cut. The RBNZ's commentary was generally viewed as more hawkish than expected. The RBNZ is still positive regarding the domestic economy's prospects; strong inward migration, construction activity, and tourism with accommodative monetary policy supporting the economy. Areas of concern are Auckland house price growth which has picked up of late and market pressures spilling over to other regions, and dairy export prices remaining below breakeven for most farmers. The RBNZ remains cautious about global prospects noting "global growth has deteriorated over recent months", with China again singled out. It continues to highlight concern over lower inflation expectations, and was a little more direct in its language towards currency. The currency has been stubbornly strong as interest rate expectations have also fallen in other countries, which has weakened their currencies relative to the New Zealand dollar and it is unlikely this will unwind soon.

A positive for the month has been that credit margins stabilised and narrowed slightly after being a negative contributor in the March quarter. Resultantly, returns from credit holdings have generally outperformed government and swap investments. We have been extending the duration of the Fund's credit holdings at these wider margin levels. There are a reasonable number of bond maturities this year and these monies will likely be recycled into bonds further along the yield curve looking for a higher return. Although credit markets have been challenging, we are not overly negative and expect that although credit margins may expand further they will likely peak this year. Predicting the exact timing of the peak or troughs in a cycle is difficult and we will be incrementally extending duration 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 investments. Higher yields should ultimately benefit the Fund as bonds roll down the yield curve and move lower in yield as they become closer to maturity.

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