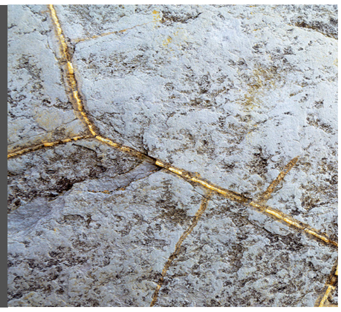
nikko am
Nikko Asset Management

NIKKO AM NZ BOND FUND

Monthly Fact Sheet 30 June 2016



Investment objective

The objective of the Fund is to construct a portfolio of permitted investments that outperform the Fund's benchmark return by 1.0% per annum over a rolling three year period before fees, expenses and taxes.

Benchmark

Bloomberg NZBond Govt 0+ Yr Index (from 1 July 2016)

Fund description

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.

The Fund gains its investment exposure by investing into the Nikko AM Wholesale NZ Bond Fund which is managed by the Nikko AM NZ Fixed Income team.

Distributions

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

Management fees and other charges

A management fee of 0.60% per annum calculated as a percentage of the net asset value of the Fund will be calculated and deducted from the Fund.

Nikko AM may also recover expenses (including the Trustee fee) from the Fund up to a maximum of 0.25% per annum of the Fund's net asset value. Estimate of expenses as at 1 July 2016 are 0.25% per annum.

Buy/sell spread

Nil

Investment restrictions

Nikko AM Wholesale NZ Bond Fund

- A minimum of 25% of the wholesale fund is to be invested in securities issued or guaranteed by the New Zealand Government or securities accepted by the RBNZ's Overnight Reserve Repo Facility.
- A minimum of 50% of the wholesale fund is restricted to debt securities with a credit rating equal to or higher than New Zealand Government.
- Minimum of 95% of the wholesale fund to be invested in assets rated A- or better.
- Portfolio modified duration range of +/- 1.5 years around index duration.
- Cash and cash equivalent investments must have a minimum credit rating of Standard & Poor's A1 short-term and A long-term.

Refer to the SIPO for full details of permitted investments and restrictions.

Performance

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

1 month	3 months	6 months	1 year
0.75%	1.88%	5.19%	6.79%

2 years (pa)	3 years (pa)	5 years (pa)	Inception (pa)*
7.49%	6.04%	6.18%	6.56%

* January 2011

Distributions

Cents per unit	Mar	Jun	Sep	Dec
2016	1.40	1.25		
2015	0.90	1.25	1.15	1.30
2014	0.90	0.50	0.80	0.80
2013	1.10	1.25	1.30	1.25

Asset allocation (% of fund)

Government stock	27.8%
SOE and local authority	16.2%
NZ registered banks	41.8%
Corporate bonds	14.2%

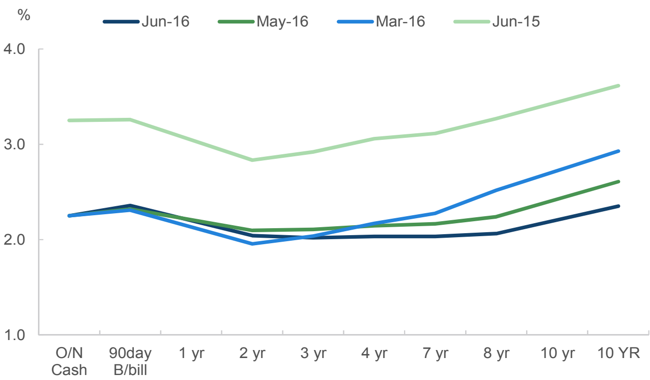
Credit rating profile

S&P rating	% portfolio
AAA	13.1%
AA	59.6%
A	22.9%
BBB	4.4%

Duration and yield

Duration	Fund 4.0 years versus benchmark 4.43 years
Yield	Fund (gross) 3.25% versus benchmark 2.09%

New Zealand yield curve



Top 5 corporate issuers (% of fund)

NZ Local Government Funding Authority	10%
Bank of New Zealand	9%
Rabobank	7%
Westpac Banking Corporation	7%
Fonterra Co-operative Group	6%

Commentary

Over the month New Zealand Government bond and swap rates performed strongly as interest rates moved lower in yield. The New Zealand Government Bond Index produced a return of 0.93% for the month while the All Swap Index returned 1.09% and the NZ Corporate A Index 0.68%.

For the month the Fund's shorter duration and higher holdings of credit detracted value. Under performance over the quarter was mainly attributed to credit as government bonds and swaps on longer duration bonds performed better as New Zealand interest rates moved sharply lower in yield following the Brexit vote by the UK to leave EU membership. Before the vote the New Zealand Government 2033 bond moved higher in yield (close to 3%) with expectations the UK would stay, subsequently the NZGS 2033 bond fell approximately 30 basis points in yield to 2.67% at the end of June. Similar maturities of swap rates performed better than government bonds as swap rates decreased more in yield narrowing their spread to governments. Also longer maturity bonds had greater decreases in yield outperforming shorter maturities. For example the 10-year swap rate moved 28 basis points lower in yield over the month, whereas the 2-year swap decreased by 7 basis points. The New Zealand yield curve has flattened significantly in shape with the 2-10 year swap spread narrowing from 64 to 43 basis points, led by long maturities as uncertainty increases and expectations for global growth is revised downwards. An important point is that Brexit has little direct impact on New Zealand, however the financial markets have been relatively volatile and this may increase the likelihood of a further reduction in the New Zealand cash rate. The actual process of exit will develop over a period of years rather than months and market sentiment will likely have moments of complacency and bouts of overreaction as events unfold. New Zealand interest rates are at historic lows, but rates are generally much lower in other developed countries. We continue to expect a reasonable amount of interest in New Zealand assets with attractive yields and the currency showing some stability.

Credit markets did not perform as well as other bond sectors in the "risk off" environment. Uncertainty as to where pricing should be saw two local bond issuers delaying their deals. Subsequently there have been some relatively large corporate issues globally that have received good pricing support. New issuance levels locally should offer reasonable value and we are happy continuing to extend the duration of the Fund's credit holdings to take advantage of higher credit margins. Over our 3-year investment horizon we expect credit to add value over lower yielding Government and swap bond investments. The accrual trade of having a higher yielding portfolio should ultimately be of 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.