nikko am
Nikko Asset Management

NIKKO AM NZ CORPORATE 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 1.5% 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 is designed to provide regular income by constructing an actively managed investment portfolio of New Zealand bonds, deposits and cash, while protecting the capital value of investors' funds.

The Fund gains its exposure by investing directly into market securities and is managed by the Nikko AM NZ Fixed Income team.

Distributions

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

Currency management

Foreign currency exposures created as a consequence of capital markets investments are hedged to NZD within an operational range of 97.5% to 102.5%.

Management fees and other charges

A management fee of 0.70% 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 0.12% per annum.

Buy/sell spread

Nil

Investment restrictions

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

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

Credit Rating	Fund Exposures	Maximum exposure per issuer
AAA	0% ⇔ 100%	15.0%
AA- to AA+	0% ⇔ 100%	10.0%
A- to A+	0% ⇔ 80%	7.5%
BBB- to BBB+	0% ⇔ 30%	5.0%

Sector Limits	Maximum
NZ Government, Government Department or Government Guaranteed	100%
NZ Corporate and Bank Debt	100%
NZD Kauri Bonds	40%
Offshore issued NZ Corporate Debt Hedged to NZD	20%
NZ Mortgage Backed and Asset Backed Securities	20%

Performance

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

1 month	3 months	6 months	1 year
0.70%	1.51%	4.31%	6.18%

2 years (pa)	3 years (pa)	5 years (pa)	Inception (pa)*
7.35%	6.18%	6.29%	7.12%

* July 2009

Distributions

Cents per unit	Mar	Jun	Sep	Dec
2016	1.15	0.85		
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 (% of fund)

Corporate bonds	33.0%
NZ registered banks	48.7%
Local authority	11.2%
NZ government and government equivalent	7.1%

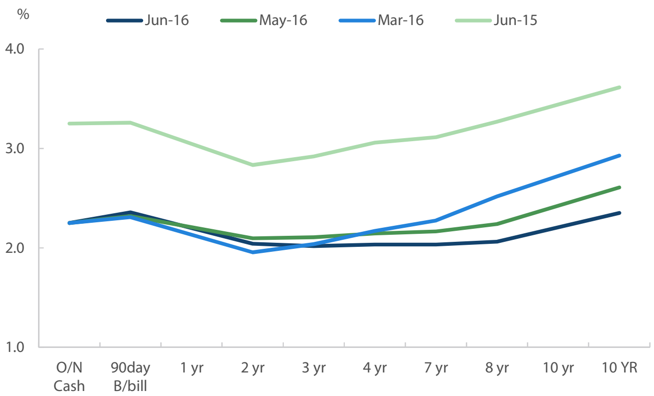
Credit rating profile

S&P rating	% portfolio	Number of holdings
AAA	2.6%	6
AA	49.0%	49
A	21.0%	23
BBB	27.4%	29

Duration and yield

Duration	Fund 3.7 years versus benchmark 4.43 years
Yield	Fund (gross) 3.7% versus benchmark 2.09%

New Zealand yield curve



Top 10 issuers (% of fund)

Westpac Banking	9%	Rabobank	6%
Bank of New Zealand	9%	Transpower	5%
ANZ Bank NZ	9%	Fonterra	5%
ASB Bank	7%	Powerco	3%
NZ Government	7%	Kiwibank Limited	3%

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 high credit holdings detracted value. Under performance over the quarter was also attributed to credit as government bonds and swaps on long 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 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.