NIKKO AM NZ BOND FUND

Monthly Fact Sheet 31 July 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
1.05%	2.52%	4.79%	6.48%

2 years (pa)	3 years (pa)	5 years (pa)	Inception (pa)*
7.58%	6.47%	6.33%	6.66%

* 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	27.5%
SOE and local authority	17.9%
NZ registered banks	40.3%
Corporate bonds	14.3%

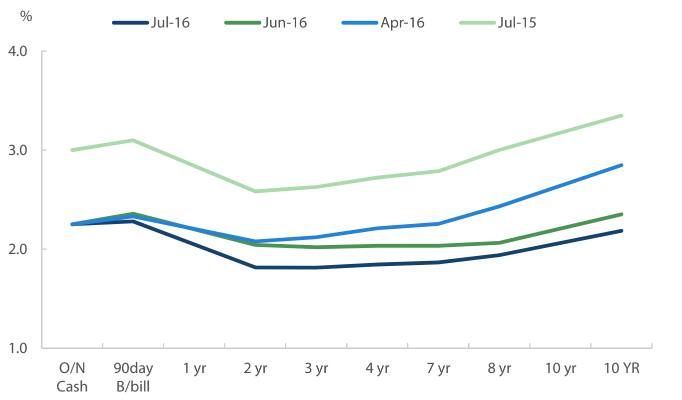
Credit rating profile

S&P rating	% portfolio
AAA	12.7%
AA	63.6%
A	19.8%
BBB	3.9%

Duration and yield

Duration	Fund 4.2 years versus benchmark 4.39 years
Yield	Fund (gross) 3.0% versus benchmark 1.92%

New Zealand yield curve



Top 5 corporate issuers (% of fund)

NZ Local Government Funding Authority	11%
Bank of New Zealand	9%
Rabobank	7%
Fonterra Co-operative Group	6%
Westpac Banking Corporation	5%

Commentary

The New Zealand Government Bond Index produced a return of 0.89% in July, while the All Swap Index returned 1.05%, and the A Grade Corporate Index 0.96%.

The Fund had a good month as a result of corporate bond holdings and swap rates performing better than similar maturities of New Zealand government bonds. New Zealand interest rates continued to move lower in yield with longer maturity swaps falling more than equivalent maturities of governments. Credit holdings performed well as the higher running yield was of benefit and the margins they trade at over swap rates were slightly lower to stable.

Over the month there were some new issues to market that received good support. This was positive as there had been little issuance locally to gauge market demand since the ructions in financial markets surrounding the Brexit vote.

New Zealand interest rates have continued lower as the global growth outlook remains weak and on expectations the Reserve Bank of New Zealand will further reduce the Official Cash Rate. Longer maturity bonds continued to be the best performing sector of the yield curve. The price of longer maturity bonds is more sensitive to changes in interest rates (they have a higher duration as their cash flows extend further into the future) and consequently their value increases more than shorter maturity bonds when interest rates move lower in yield.

Over the month the move lower in interest rates was relatively consistent across the yield curve resulting in an approximately parallel shift lower in interest rates. For example the 2-year swap rate moved 19 basis points lower in yield over the month, and the 10-year swap decreased by 22 basis points. For comparison the New Zealand Government Dec-2017 bond was 19 basis points lower in yield over the month, and the New Zealand Government Apr-2027 yield decreased by 14 basis points. The New Zealand yield curve is still upward sloping in shape with the 2-10 year swap spread at 40 basis points. Currently shorter maturities out to three years are somewhat anchored by the Official Cash Rate and therefore more influenced by the monetary policy actions of the Reserve Bank of New Zealand, whereas longer maturity bonds (7 years plus) have been more closely correlated to movements in US 10-year rates and our relative attractiveness compared to yields in other developed markets.

We are continuing to extend the duration of the Fund's credit holdings to take advantage of higher credit margins. Over our three 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.