NIKKO AM NZ CORPORATE BOND FUND

Monthly Fact Sheet 31 August 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 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. As at the time of publication these expenses are estimated to be 0.08% 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
0.57%	2.31%	3.85%	5.97%

2 years (pa)	3 years (pa)	5 years (pa)	Inception (pa)*
7.31%	6.85%	6.40%	7.18%

* 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	41.5%
NZ registered banks	46.5%
Local authority	4.0%
NZ government and government equivalent	8.0%

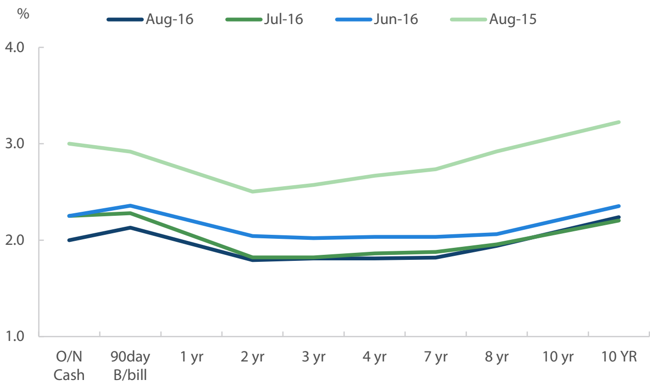
Credit rating profile

S&P rating	% portfolio	Number of holdings
AAA	2.4%	7
AA	48.7%	55
A	21.2%	24
BBB	27.7%	31

Duration and yield

Duration	Fund 3.9 years versus benchmark 4.4 years
Yield	Fund (gross) 3.45% versus benchmark 1.92%

New Zealand yield curve



Top 10 issuers (% of fund)

ANZ Bank NZ	9%	Fonterra	6%
Westpac Banking	9%	Rabobank	6%
Bank of New Zealand	9%	Transpower	5%
NZ Government	8%	Auckland Council	3%
ASB Bank	7%	Powerco	3%

Commentary

Over August the New Zealand Government Stock Index returned 0.16% while the All Swap Index returned 0.40% and the A Grade Corporate Index 0.49%.

The yield on the Fund is circa 1.5% higher than that of the New Zealand Government Stock Index. This higher than index yield contributed to the monthly outperformance as did the narrowing of credit and swap margins on non-government bonds held by the Fund.

The global 'hunt for yield' continues unabated and is a significant factor for the strong recent performance of higher yielding bonds with investment grade credit ratings. Lower cash rates in New Zealand and low rates globally force investors who require income to buy longer duration assets and non- government debt or a combination of both. This investment dynamic is unlikely to change in the near term.

The Reserve Bank of New Zealand (RBNZ) and the Reserve Bank of Australia both cut rates by 25 basis points to record lows of 2.0% and 1.5% respectively, only to see their currencies higher as these cuts had been well anticipated. The RBNZ maintained a strong easing bias however made the point it is taking a gradual approach towards trying to meet its 1-3% inflation target. The prospect of further cuts saw the 2-year swap rates 5 basis points lower at 1.99% and the 5-year swap rates 6 basis points lower at 2.09%. The long end of the New Zealand government bond curve was an exception to the fall in rates – 10 year government bonds were up 4 basis points to 2.24% as the market needed time to absorb a new $2 billion issue of April 2037 bonds.

We are continuing to extend the duration of the Fund's credit holdings to take advantage of higher credit margins available on longer term bonds. Over our three year investment horizon we except 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 as over time as bonds roll down the yield curve and move lower in yield as they become closer to maturity.