NIKKO AM NZ BOND FUND

Monthly Fact Sheet 30 September 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 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 0.125% 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
0.15%	1.67%	3.58%	6.34%

2 years (pa)	3 years (pa)	5 years (pa)	Inception (pa)*
7.31%	6.77%	5.88%	6.53%

* January 2011

Distributions

Cents per unit	Mar	Jun	Sep	Dec
2016	1.40	1.25	1.05	
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	27.1%
SOE and local authority	18.7%
NZ registered banks	39.4%
Corporate debt	14.8%

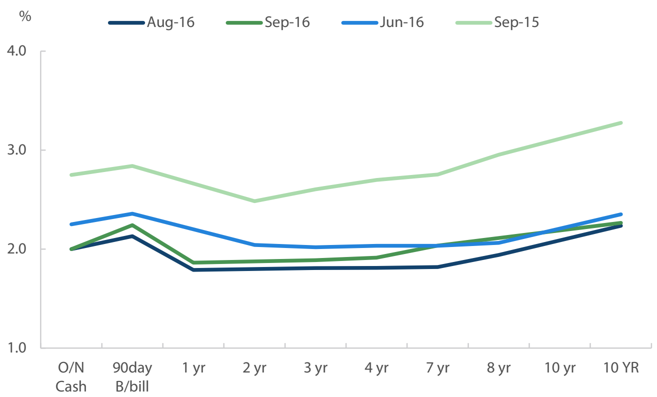
Credit rating profile

S&P rating	% portfolio
AAA	9.8%
AA	65.9%
A	20.2%
BBB	4.1%

Duration and yield

Duration	Fund 4.8 years versus benchmark 4.7 years
Yield	Fund (gross) 3.1% versus benchmark 2.0%

New Zealand yield curve



Top 5 corporate issuers (% of fund)

NZ Local Government Funding Authority	11.3%
Bank of New Zealand	9.3%
Rabobank	7.2%
Fonterra Co-operative Group	6.3%
Westpac Banking Corp	5.7%

Commentary

For the month, portfolios that were positioned with shorter durations (less exposure to changes in interest rates) performed better as their prices declined less when interest rates moved higher in yield. Government bonds have been the best performing bond sector for most of the year as interest rates fell and credit margins widened, however there was some catch up from other sectors as Governments performed poorly over the month on a relative basis. Corporate bonds and swaps delivered a better return as they didn't move higher in yield to the same extent as similar maturities of government bonds. Corporate bonds also have the advantage of a higher running yield which helps to dampen the volatility of returns. NZ interest rates were volatile intra-month with the NZ Government 2033 bond moving higher in yield by close to 40 basis points before retracing most of this move and finishing at 2.61%. For the month government bond maturities from 1 to 7 years closed approximately 10 basis points higher in yield with longer bonds less impacted. Swap margins contracted in spread to government bonds as the underlying swap rates didn't move higher in yield to the same extent as government bonds.

Over the quarter interest rates still managed to finish lower in yield despite rising in September. Government bonds were only marginally lower in yield, but swap rates performed better, falling an additional 10-15 basis points compared to similar maturities of government bonds. The shape of the NZ swap yield curve has remained relatively stable over the past three months with the 2-10 year swap spread currently at 47 basis points. Credit markets tentatively settled and (the accrual trade of) having a higher yielding portfolio is showing some benefit as the higher yield isn't eroded by widening credit margins. With a positive shaped yield curve bonds roll down the yield curve and move lower in yield as they become closer to maturity. We expect credit to outperform lower yielding government and swap bond investments over our three year investment horizon.

The New Zealand economy is performing well on a relative basis compared to other developed economies; business and consumer confidence, GDP, inflation, and dairy prices have been improving. Interest rates are low and supportive of activity with the possibility of a further rate cut. Challenges are the high level of the NZD that continues to frustrate the Reserve Bank and they would like to see house price appreciation slow. The direction of NZ short-term interest rates will continue to be influenced by local factors with low cash rates anchoring the front end of the yield curve. Bonds 5-years and longer in maturity will likely remain more heavily influenced by global events and movements in US bond rates.