NIKKO AM NZ CORPORATE BOND FUND

Monthly Fact Sheet 30 November 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
-0.95%	-1.67%	0.60%	3.81%

2 years (pa)	3 years (pa)	5 years (pa)	Inception (pa)*
5.34%	5.83%	5.76%	6.74%

* July 2009

Distributions

Cents per unit	Mar	Jun	Sep	Dec
2016	1.15	0.85	0.90	
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	38.7%
NZ registered banks	49.2%
Local authority	5.9%
NZ government and government equivalent	6.2%

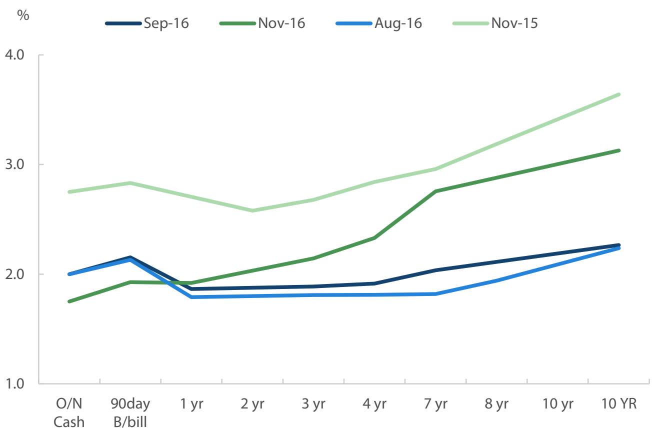
Credit rating profile

S&P rating	% portfolio	Number of holdings
AAA	2.6%	8
AA	49.2%	61
A	21.3%	22
BBB	26.9%	34

Duration and yield

Duration	Fund 3.65 years versus benchmark 4.48 years
Yield	Fund (gross) 3.99% versus benchmark 2.52%

New Zealand yield curve



Top 10 issuers (% of fund)

Westpac Bank	10.8%	Fonterra Coop	6.0%
ANZ Bank	9.2%	New Zealand Gov	5.9%
BNZ	7.7%	Inland Revenue	4.9%
ASB	7.0%	Powerco NZ	3.7%
Rabobank	6.0%	AK Intl Airport	3.5%

Commentary

Returns from the NZ bond indices were negative in November as interest rates moved higher in yield. For the month the Bloomberg NZ Government bond index produced a return of -1.37% while the All Swap index returned -1.18%, and the NZ Bond Corporate A Index returned -0.66%.

It was a difficult month for bonds with yields moving higher through the month after the result of the US elections. Market sentiment turned negative for bonds on the perception that President Elect Trump's expansionary policies of tax cuts and a higher fiscal spend will promote growth, higher inflation and larger borrowings for the US. With more protectionist trade policies there will also likely be "winners and losers" which could impact our major trading partners. NZ longer-term interest rates are typically highly correlated with movements in US interest rates, whereas shorter maturities are more influenced by local factors with low cash rates anchoring the front end of the yield curve. NZ interest rates followed similar moves to the US and the shape of the NZ yield curve steepened considerably (widening from a spread of 70 basis points between the 2 and 10-year swap rates to 100 basis points). Longer maturity bonds were the worst performing bond assets, and there was little difference between the performances of government bonds versus similar maturities of swap.

The Fund has a shorter durations (less exposure to changes in interest rates) and performed better as prices declined less when interest rates moved higher in yield. Corporate bonds also moved higher in yield although credit margins were relatively stable, and the higher running yield of corporate holdings will help benefit the Fund over the medium term.

Longer term interest rates in NZ have been under some pressure over the past 3 months as economic news has generally been on an improving trend; business and consumer confidence, GDP, inflation outcomes, and dairy prices have been improving. Interest rates are low and supportive of activity, and there will be additional spends following the recent Kaikoura earth quake. At this stage it appears we may have seen the low in yields in NZ and the sentiment bias is for higher interest rates, however with the latest move higher in yields there is now a lot of "positive economic sentiment" factored in with a higher and steeper yield curve and the market may want to see some more solid proof of improvement before taking yields higher. 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 accrual trade of having a higher yielding portfolio is helping to offset some of the move higher in interest rates. At the same time we don't want to have an undue amount of risk to rising interest rates and the Fund will likely be positioned shorter in duration than its index.