nikko am
Nikko Asset Management

NIKKO AM NZ CORPORATE BOND FUND

Monthly Fact Sheet 31 December 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
-0.53%	-2.35%	-0.63%	3.65%

2 years (pa)	3 years (pa)	5 years (pa)	Inception (pa)*
4.62%	5.66%	5.45%	6.59%

* July 2009

Distributions

Cents per unit	Mar	Jun	Sep	Dec
2016	1.15	0.85	0.90	1.20
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	38.9%
NZ registered banks	47.8%
Local authority	5.8%
NZ government and government equivalent	7.5%

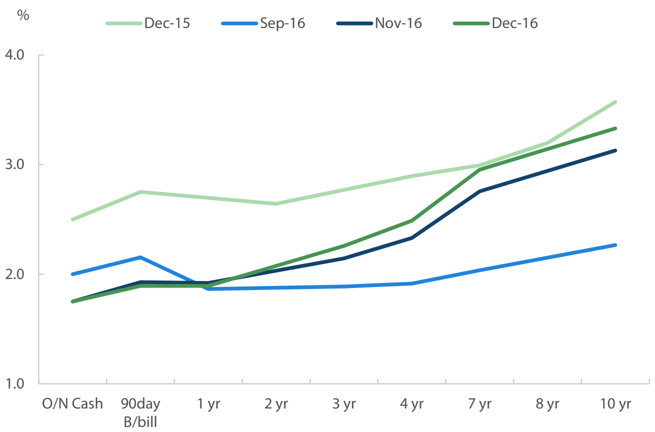
Credit rating profile

S&P rating	% portfolio	Number of holdings
AAA	3.6%	11
AA	48.2%	58
A	21.8%	22
BBB	26.4%	32

Duration and yield

Duration	Fund 3.58 years versus benchmark 4.50 years
Yield	Fund (gross) 4.05% versus benchmark 2.67%

New Zealand yield curve



Top 10 issuers (% of fund)

Westpac Bank	10.2%	Rabobank	6.0%
ANZ Bank	9.1%	Fonterra Coop	6.0%
BNZ	7.4%	New Zealand Gov	5.7%
ASB	6.7%	Powerco NZ	4.2%
Inland Revenue	6.3%	AK Intl Airport	4.0%

Commentary

The Nikko AM NZ Corporate Bond Fund returned -0.46% (gross of fees and taxes) for December and -2.16% for the quarter. Returns from the NZ bond indices were negative as interest rates moved higher in yield. For the month the Bloomberg NZ Government Bond Index produced a return of -0.61% while the All Swap index returned -1.19%, and the NZ Bond Corporate A Index returned -0.72%.

The Corporate Bond Fund had a negative return for the month as interest rates continued to move higher through December. Overall it was a poor quarter for bonds as market sentiment remained 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. Longer maturity bonds have been the worst performing bond assets with greater movements higher in yield than shorter maturities. Corporate bonds also moved higher in yield although credit margins were relatively stable, and the higher running yield of corporate holdings will benefit the Fund over the medium term.

Longer term interest rates in NZ have been under some pressure over the past three months as domestic and offshore economic news has generally been on an improving trend. The sentiment bias has been for higher interest rates, however there is now a lot of "positive 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 - which could see some stability in rates or an unwind of the move. There remains a lot of debt in the world and large areas of the global economy are still underperforming. We have seen a large move higher in interest rates in a short amount of time and this has been steepening yield curves as longer term interest rates rise on the transition from a very limited inflation outlook to the prospects of recovering inflation. With a positive shaped yield curve bonds roll down the yield curve and move lower in yield as they become closer to maturity. The accrual trade of having a higher yielding portfolio is helping to offset some of the move higher in interest rates.