nikko am
Nikko Asset Management

NIKKO AM NZ CORPORATE BOND FUND

Monthly Fact Sheet 31 January 2017

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
0.31%	-1.17%	-1.33%	2.75%

2 years (pa)	3 years (pa)	5 years (pa)	Inception (pa)*
3.93%	5.56%	5.49%	6.56%

* 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	39.6%
NZ registered banks	48.2%
Local authority	5.7%
NZ government and government equivalent	6.5%

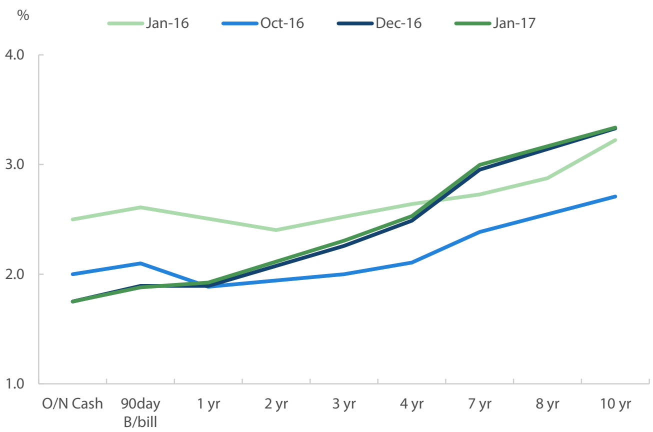
Credit rating profile

S&P rating	% portfolio	Number of holdings
AAA	3.6%	11
AA	47.6%	57
A	21.6%	22
BBB	27.3%	28

Duration and yield

Duration	Fund 3.37 years versus benchmark 4.45 years
Yield	Fund (gross) 4.14% versus benchmark 2.72%

New Zealand yield curve



Top 10 issuers (% of fund)

Westpac Bank	11.0%	Rabobank	6.1%
ANZ Bank	9.0%	Fonterra Coop	5.9%
BNZ	7.4%	Transpower	4.5%
ASB	6.5%	Auck Intl Airport	4.0%
NZ Government	6.4%	KwiBank	3.2%

Commentary

For the month the Bloomberg NZ Government Bond index produced a return of 0.06% while the All Swap index returned 0.07%, and the NZ Bond Corporate A Index returned 0.35%.

NZ interest rates finished January little changed, however there was a reasonable amount of volatility in interest rate movements during the month. Swap spreads to government bonds were relatively stable over the month with spreads inside 7 years in maturity narrowing marginally, whilst 10 year spreads widened and steepened the upward shape of the yield curve to a spread of +1.14% between the 2 and 10 year swap rates. NZ credit margins were stable to slightly narrower over the month with limited market activity due to the holiday season. A higher running yield of corporate holdings was of benefit to the fund over the month.

The NZ economy remains in expansionary mode, very strong immigration, tourism, and strength in other areas of the economy have picked up the slack from a weak dairy sector. Inflation appears to be recovering across a broad base and it is the first time back in the target band for some time and we expect inflation to remain contained over the near term. Given the relative strength of the NZ economy, higher growth and interest rates it is likely the NZD will continue to remain reasonably well supported, and expect dips to remain relatively shallow. With this background NZ short-term rates out to 3 years in maturity will continue to be primarily influenced by local factors and the actions of the Reserve Bank. The cash rate at 1.75% should help anchor the front end of the yield curve. The market is currently pricing an earlier start to interest rate increases than the Reserve Bank, and we believe the bank may be slower to raise interest rates as this is likely the path of least regret with uncertainties still remaining in the global economy, while inflation remains relatively benign and the NZ dollar high on a TWI basis. Longer term interest rates in NZ will likely be more heavily influenced by offshore events with the NZ 10-year interest rate following the direction of the US. There is already a reasonable amount of good news factored in with interest rates moving markedly higher over the last quarter of 2016, markets may have got ahead of actual policy in the US, and Trump will most likely continue to be a source of “surprises”. The medium term directional bias is most likely upward, but we don’t expect large movements higher in yield from here and expect a reasonable amount of volatility along the way.