

NIKKO AM NZ CORPORATE BOND FUND

Monthly Fact Sheet

31 March 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
0.62%	1.81%	-0.59%	2.70%
2 years (pa)	3 years (pa)	5 years (pa)	Inception (pa)*
4.42%	5.86%	5.73%	6.62%

* July 2009

Distributions

Cents per unit	Mar	Jun	Sep	Dec
2017	0.80			
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

Asset allocation (% of fund)

Corporate bonds	40.4%
NZ registered banks	48.9%
Local authority	6.2%
NZ government and government equivalent	4.5%

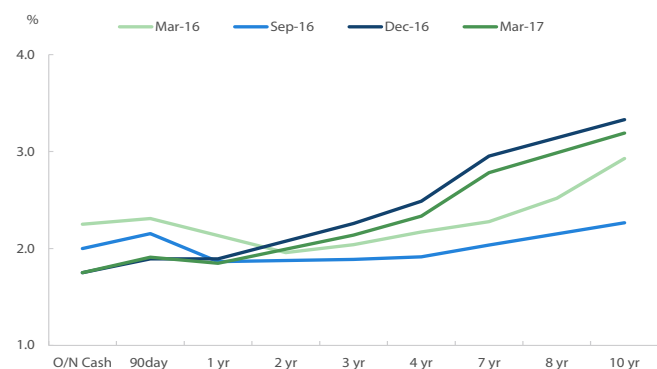
Credit rating profile

S&P rating	% portfolio	Number of holdings
AAA	3.2%	9
AA	46.8%	45
A	22.4%	20
BBB	27.6%	29

Duration and yield

Duration	Fund 3.38 years versus benchmark 4.46 years
Yield	Fund (gross) 3.84% versus benchmark 2.56%

New Zealand yield curve



Top 10 issuers (% of fund)

Westpac	10.9%	Fonterra Coop	6.2%
ANZ Bank	8.7%	Transpower	4.9%
BNZ	7.5%	Power Co	4.6%
ASB	6.5%	NZ Government	4.5%
Rabobank	6.3%	Auck Intl Airport	4.2%

Fund commentary

The higher portfolio running yield and a moderate contraction in credit margins was a positive for outperformance. Longer maturity corporate bond issues were added and funded by cash and selling shorter maturity bonds. The moderate underweight duration position was a detractor. The Corporate Bond Fund will typically be positioned around 3.5 years in duration with less interest rate risk than the NZ Government Bond benchmark.

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Market commentary

It was a good start to 2017 for NZ Bonds as interest rates finished the March quarter lower in yield following similar moves in offshore bond markets and credit margins contracted. Perhaps surprisingly given some of the events that were of concern leading into last years close (the inauguration of Trump and geopolitical concerns) the level of volatility in financial markets have been low so far this year. The range of yield movements in NZ interest rate markets (around 25 basis points) has been subdued in comparison to the monthly movements experienced through late 2016 when interest rates moved much higher.

We have seen some tentative unwind of the 2016 move higher in interest rates that was driven by optimism over pro-growth policies in the US and recovering inflation and growth in the global environment. The NZ Government 2019 bond moved lower in yield by 13 basis points, the NZ Government 2021 bond was 21 basis points lower, and the NZ Government 2027 finished 17 basis points lower in yield. Markets have recalibrated how much "optimism" should be reflected in interest rate levels given Trump has been frustrated in his efforts to fully instigate his policy changes and subsequently there has been a shift to downgrade the lift in US growth and inflation due to the new administration's policies.

NZ credit margins have been slower to contract than offshore credit margins so far this year; however this is not unusual as NZ credit has historically been less volatile in margin fluctuations than offshore markets. New bond issuance to the local market has been relatively limited so far this year, but bond issues have received strong buy volume demand which should be supportive of future performance. We continue to have a positive view on credit and expect having a higher portfolio running yield will be one of the main attributors to outperformance over the course of this year. We prefer to hold more mid curve maturity (4-7 years) credit rather than longer government bonds that have a lower yield and greater interest rate risk.

The NZ economy continues to perform well although forecasters expect some slowing of activity with capacity constraints in sectors such as construction. The Reserve Bank has indicated they see stable cash rates with risks evenly balanced at present, this should help anchor the front end of the yield curve at current levels. Credit/housing related excesses are being more actively curtailed, which lessens the odds of imbalances building. Numerous support factors remain, which should allow annual GDP growth to hover around 3% over 2017.