nikko am
Nikko Asset Management

NIKKO AM INCOME FUND

Monthly Fact Sheet 30 April 2017

Investment objective

The objective of the Fund is to construct a portfolio of permitted investments that earn a return of 8% per annum over a rolling three year period before fees, expenses and taxes.

Benchmark

Composite of (from 1 July 2016):	
Bloomberg NZBond Govt 0+ Yr Index	70%
Bloomberg NZBond Bank Bill Index plus 4% per annum	30%

Fund description

The Fund aims to provide investors with regular income from an actively managed investment portfolio while protecting the capital value of investors' funds.

The Fund gains its investment exposures by investing into the Nikko AM NZ Corporate Bond Fund and the Nikko AM Wholesale Option Fund which are managed by the Nikko AM NZ Fixed Income team.

Distributions

Quarterly. Last business days of March, June, September and December.

Currency management

Any foreign currency exposures of Nikko AM NZ Corporate Bond Fund created as a consequence of capital markets investment are hedged to NZD within an operational range of 97.5% to 102.5%. The Nikko AM Wholesale Option Fund hedges any foreign currency cash holdings to the NZD with an operational range of 98.5% to 101.5%. If there are any currency hedging contracts in place, they are held within the Nikko AM NZ Corporate Bond Fund and/or the Nikko AM Wholesale Option Fund.

Management fees and other charges

A management fee of 0.80% per annum calculated daily 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 0.25% per annum.

Buy/sell spread

Nil

Strategic asset allocation

	Target	Range
Nikko AM Wholesale Option Fund	30%	20% ⇔ 40%
Nikko AM NZ Corporate Bond Fund	70%	60% ⇔ 80%
Cash on call for investor transactions	0%	0% ⇔ 5%

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
0.91%	2.50%	-0.93%	2.17%

2 years (pa)	3 years (pa)	5 years (pa)	Inception (pa)*
5.63%	6.15%	6.17%	7.19%

* October 2007

Distributions

Cents per unit	Mar	Jun	Sep	Dec
2017	1.25			
2016	1.25	1.50	1.80	1.25
2015	1.00	1.25	1.50	1.25
2014	1.50	1.00	1.50	1.00

Asset allocation (% of fund)

Nikko AM Wholesale Option Fund	34.67%
Nikko AM NZ Corporate Bond Fund	65.33%
Cash	0.00%

FundSource

Winner – New Zealand Fixed Interest Sector
Fund Manager of the Year Awards are announced by FundSource, the investment strategy and research company. These awards should not be read as a recommendation by FundSource. For further advice on the relevance of this award to your personal situation consult your authorised financial advisor.

Top 5 corporate issuers

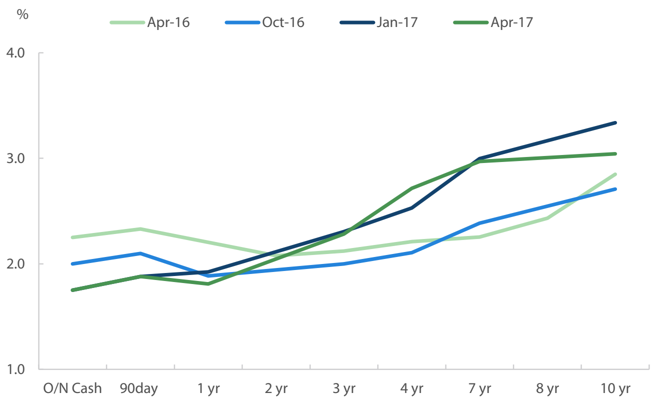
ANZ	9.0%
ASB	8.9%
Westpac Banking Corp	7.1%
RaboBank	7.0%
BNZ	6.2%

Aggregated of Option and Corporate Bond Funds

Corporate Bond Fund yield (gross)

3.64%

New Zealand yield curve



Corporate Bond Fund commentary

The higher portfolio running yield and a moderate contraction in credit margins was a positive for performance. The moderate underweight duration position was a detractor as was yield curve positioning as the fund has an underweight position in long maturities bonds which were the best performers over the month. 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.

The month of April was another good month for NZ bonds as interest rates moved lower in yield. Over the month there was a reasonably large difference in performance across the different sectors of the NZ bond market. The Bloomberg NZ Government Bond index returned 0.79%, The NZX 1-10 year swaps retuned 0.49%, and the Corporate A 0.59%. A large amount of the difference was due to the comparatively larger fall in yield for the longer NZ Government bond 2033 and 2037 maturities which fell in yield by 22.5 bps and 26 bps respectively outperforming shorter bond maturities substantially.

The longer NZ Government bonds saw strong demand from offshore investors as NZ interest rates remain comparatively high and the lower NZ dollar allowed cheaper entry.

Interest rates have continued to move lower over 2017, and the volatility in financial markets has generally been low. 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 contracted moderately and credit has generally outperformed similar maturities of swap and governments. The portfolios have benefited from having higher weightings to credit with both a higher running yield and margin contraction. New bond issuance to the local market has remained relatively limited so far this year which has helped support secondary demand. 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. At this stage we expect movements in NZ bond yields to remain relatively muted, but we may adjust the fund duration if we see opportunities. In September the Reserve Bank Governor will retire and be replaced for six months (as an interim measure) by his deputy. Also in September is the NZ general election which may bring the possibility of some uncertainty to markets.

Option Fund commentary

The Option Fund returned 1.63% over April. The US 10-year Treasury Bond traded over a modest range moving between a high of 2.39% and an intraday low of 2.16%. The Fund benefitted from an increase in premium income in the week preceding the French Presidential election as the possibility of an unexpected result unsettled markets. Income levels fell away again as the result became known. The income the Fund receives from writing options on US Treasury bonds continues to be at the lower end of historical levels but should provide the basis for an acceptable level of returns over the months ahead.