nikko am
Nikko Asset Management

NIKKO AM NZ CORPORATE BOND FUND

Monthly Fact Sheet 30 April 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
0.60%	2.10%	0.90%	2.96%

2 years (pa)	3 years (pa)	5 years (pa)	Inception (pa)*
4.59%	5.79%	5.56%	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	36.4%
NZ registered banks	49.6%
Local authority	10.3%
NZ government and government equivalent	3.7%

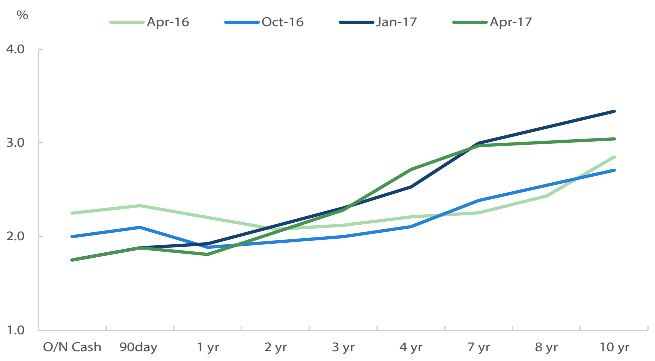
Credit rating profile

S&P rating	% portfolio	Number of holdings
AAA	3.1%	9
AA	44.7%	45
A	24.0%	20
BBB	25.5%	28
Settlements	2.70%	

Duration and yield

Duration	Fund 2.98 years versus benchmark 4.55 years
Yield	Fund (gross) 3.64% versus benchmark 2.5%

New Zealand yield curve



Top 10 issuers (% of fund)

ANZ Bank	7.9%	Kiwibank	6.2%
Westpac	7.4%	LGFA	5.8%
BNZ	7.1%	Fonterra Coop	5.6%
ASB	6.5%	Powerco NZ	4.6%
Rabobank	6.2%	Auck Council	4.3%

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.

Market commentary

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.

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. High immigration is growth positive, but momentum is broad based and numerous support factors remain, which should allow annual GDP growth to hover around 2.5-3% over 2017.