nikko am
Nikko Asset Management

NIKKO AM NZ CORPORATE BOND FUND

Monthly Fact Sheet 30 June 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 vehicle is a NZ domiciled Portfolio Investment Entity (PIE) which is priced daily. 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
-0.21%	1.50%	3.33%	2.68%

2 years (pa)	3 years (pa)	5 years (pa)	Inception (pa)*
4.42%	5.77%	5.54%	6.60%

* July 2009

Distributions

Cents per unit	Mar	Jun	Sep	Dec
2017	0.80	1.20		
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	44.9%
NZ registered banks	44.4%
Local authority	8.6%
NZ government, govt depts & govt guaranteed	1.4%
Settlements	0.7%

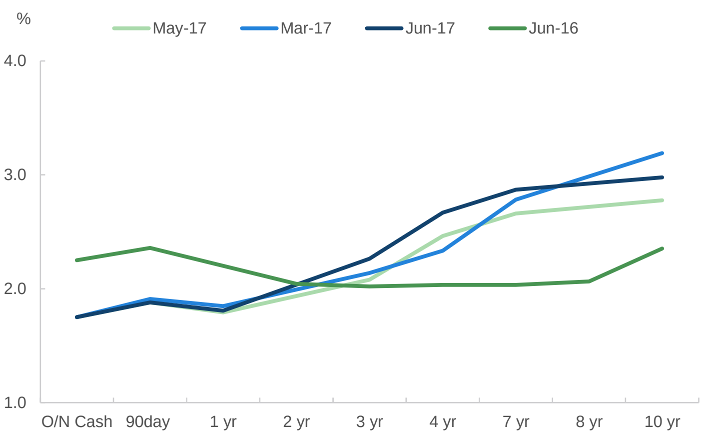
Credit rating profile

S&P rating	% portfolio	Number of holdings
AAA	2.5%	6
AA	44.6%	37
A	25.3%	17
BBB	27.6%	27

Duration and yield

Duration	Fund 3.77 years vs benchmark 4.62 years
Yield	Fund (gross) 3.98% vs benchmark 2.31%

New Zealand yield curve



Top 10 issuers (% of fund)

Westpac Bank	9.3%	Auckland Council	5.0%
Fonterra Co-op	6.4%	Ak Intl Airport	5.0%
BNZ	6.4%	ASB	5.0%
ANZ Bank	6.3%	Transpower	4.7%
Rabobank	6.0%	Kiwi Bank	4.7%

Fund commentary

Bonds were sold off over the month, however the fund outperformed the benchmark. The underweight duration position was a positive contribution to performance. The higher portfolio running yield and a moderate contraction in credit margins also contributed to performance. 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 June saw the Government Bond Index return -0.70%, as the NZ Government 10-year bond increased in yield by 26 points, ending the month at 2.97%. The NZX 1-10 year swaps returned -0.40% and the Corporate A -0.22%.

NZ Government bonds were a global outperformer in the first three weeks of the month. However, at the end of the month, the European Central Bank, the Bank of England, and to a lesser extent the US Fed, issued co-ordinated statements around the future path of interest rates and monetary conditions. In a nut shell the Central Bankers have said that they see inflation reappearing, and monetary conditions normalising in due course. This was likely in response to a global market that did not appear to believe this to be the case, as evident in the recent global bond rally. As a result of this global bonds have sold off, and the yield curve steepened out to the long end. New Zealand bonds have followed suit. Swap yields have also gone higher, but have outperformed bonds.

NZ credit margins continued to contract in spread, and credit has generally outperformed similar maturities of swap and government bonds since the start of this year. The portfolio has benefited from having higher weightings to credit with both a higher running yield and margin contraction. 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.

The RBNZ reiterated the OCR is firmly on hold. GDP growth was 0.5% for the March Quarter and below forecasts of 1.1%. The construction sector lagged, while dairy and the primary sector had a strong positive contribution. Growth per capita remains modest. It is worth noting that quarterly GDP numbers can be heavily influenced by short term movements in particular sectors, and are subject to being volatile. Consumer and business confidence are both at good levels, albeit down from recent highs. Wage inflation remains moderate, but is expected to increase due to labour market capacity constraints. The housing market, particularly in Auckland, has slowed and will likely continue to do so to the election. The main take away from this is that the economy is growing modestly, not roaring away unsustainably, and that the OCR at these levels and the RBNZ forecast of being on hold for the foreseeable seems entirely appropriate.