NIKKO AM NZ CORPORATE BOND FUND

Monthly Fact Sheet 31 August 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
0.67%	1.25%	3.62%	2.54%

2 years (pa)	3 years (pa)	5 years (pa)	Inception (pa)*
4.24%	5.70%	5.33%	6.54%

* 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	43.9%
NZ registered banks	44.3%
Local authority	8.3%
NZ government, govt depts & govt guaranteed	1.8%
Settlements	1.7%

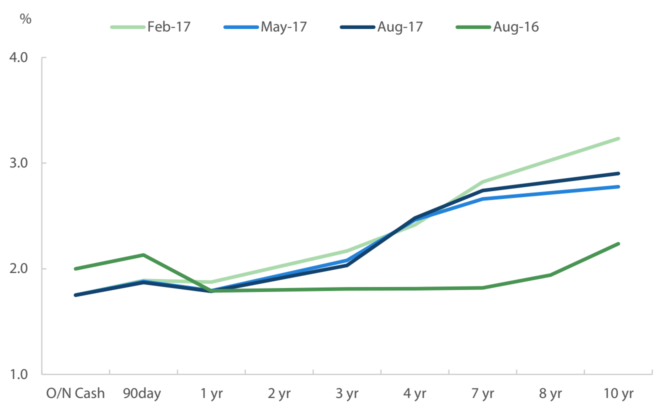
Credit rating profile

S&P rating	% portfolio	Number of holdings
AAA	3.1%	8
AA	46.0%	42
A	23.9%	17
BBB	27.0%	28

Duration and yield

Duration	Fund 3.79 years vs benchmark 4.46 years
Yield	Fund (gross) 3.48% vs benchmark 2.32%

New Zealand yield curve



Top 10 issuers (% of fund)

Westpac Bank*	10.3%	Akld Intl Airport	4.9%
BNZ	7.7%	Auckland Council	4.8%
ANZ	6.3%	ASB	4.8%
Fonterra Co-op	6.1%	NZ Government	4.7%
Rabobank	6.0%	Transpower	4.5%

* Includes cash on call pending reinvestment

Fund commentary

The fund performed well over the month. Longer maturity corporate bond holdings were generally the best performing sector of the NZ bond market due to the benefit of a higher running yield and a small move lower in interest rates across the yield curve. The positive shape of the yield curve is typically of benefit through investing longer in maturity and increasing the funds yield.

Previously we had extended duration through switching some LGFA and bank bonds longer in maturity and participating in a new corporate bond issue.

We remain happy to extend the duration of credit maturities out to mid curve through spending cash and selling shorter maturities when pricing makes sense. 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.

Market commentary

The Bloomberg NZBond Govt 0+ Yr Index returned +0.51% for August as interest rates moved marginally lower during the month. The Bloomberg 1-10 year swaps returned +0.60% and the Bloomberg Credit Index +0.56%.

The move lower in NZ interest rates during the month of August was fairly consistent across maturities with NZ government bond rates finishing approximately 7bps lower in yield. On a sector basis similar maturities of swap performed slightly better than government bonds as swap margins contracted (1 to 5bps) relative to governments. Longer dated maturities of swap were the better performers contracting more in margin than shorter maturities. The tightening in local credit margins appears to have stalled with margins relatively stable over the month. NZ credit outperformed offshore credit where there was some widening in margins due to risk-off sentiment. With a near parallel shift lower in interest rates in the government yield curve, and some small contraction in swap margins, the best performing bonds over the month were longer dated maturities that have more price gain exposure to falling interest rates. Higher yielding maturities of credit also continued to perform well.

Interest rates have remained in a relatively narrow range so far this year and volatility in financial markets has been subdued with the events and geopolitical concerns that the market was concerned passing with little disruption. Potential "bumps in the road ahead" could be an escalation of North Korean tensions and the unwinding of the Fed's bond buying program. At the same time financial market expectations have become increasingly positive that economies appear to be recovering. Central banks are on hold neutral, or moving closer to a slow and cautious approach for reducing stimulus. In contrast, lower than expected or dormant inflation outcomes have effectively reduced expectations for higher interest rates.

The RBNZ continues to maintain their view that the OCR is firmly on hold and this should help to support short to medium term bond maturities from moving much higher in yield. Longer maturity bonds will continue to be more heavily influenced by the direction of offshore markets, particularly by movements in the US 10 year bond. We don't expect a significant impact to NZ financial markets from the upcoming election, although some investors may stay on the side-lines until there is more clarity. A change of government could lead to more government bond supply, a steeper curve and potentially reduced liquidity. Over the medium to long term there may be more potential impacts to consider depending on government policy.