

Nikko AM Wholesale NZ Corporate Bond Fund

From 1 December 2023

Fund Purpose

To provide investors regular income by constructing an actively managed investment portfolio of predominantly New Zealand bonds, deposits and cash, while protecting the capital value of investors' funds.

Investment Objective

The objective of the Fund is to construct a portfolio of permitted investments that outperform the Fund's benchmark return by 0.7% p.a. over a rolling three-year period before fees, expenses and taxes.

Benchmark

Bloomberg NZBond Credit 0+ Yr Index

Strategic Asset Allocation

	Target %	Range %
New Zealand fixed interest (including Kauri bonds)	100	30.0 ⇄ 100.0
International fixed interest (offshore NZ and Australian debt securities hedged to NZD)	0	0 ⇄ 30.0
Cash and cash equivalents	0	0 ⇄ 50.0

Authorised Investments

The Authorised Investments of the Fund are;

- Cash balances with brokers, agents or custodians (local and overseas) pending investment or pending payment to the manager.
- Cash and deposits with, or debt securities issued or guaranteed by:
 - The New Zealand government, government department, or any debt obligation guaranteed by the New Zealand government.
 - The NZ Local Government Funding Authority (LGFA).
 - Any debt security listed on any recognised securities exchange or traded in secondary markets in NZ or Australia.
 - Any New Zealand local authority
 - Any Australian APRA authorised deposit taking institution who have ownership of greater than 50% of a New Zealand subsidiary issuing in AUD or NZD.
 - Investment in collective investment vehicles that meet or exceed in part or in full the objectives and risk characteristics of the Nikko AM Wholesale NZ Corporate Bond Fund.

- New Zealand dollar denominated securities issued and registered in New Zealand by a foreign entity (Kauri Bonds)
- New Zealand government, local government or corporations issuing debt in foreign currencies.
- Any equity security listed on any recognised securities exchange with a fixed dividend stream and a fixed redemption date.
- Underwriting and sub underwriting contracts for issues of permitted debt securities and equity securities.
- Derivative Instruments, including Futures, Swaps, Interest rate agreements; Forward rate agreements; Options (either exchange traded or over-the-counter); Forward foreign exchange contracts, Repurchase agreements. The use of derivatives is limited to contracts related to Authorised Investments.
- Products investing in the above underlying investments, including products managed by the Manager or a related body corporate of the Manager.
- Any other investment agreed to by the Manager and Supervisor.

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Restrictions

Portfolio duration (modified) range of ± 2.5 years around index duration.

Credit Rating Exposures

All investments are required to have an 'investment grade credit rating' or capital guaranteed by an investment grade entity.

	Fund Exposures %	Maximum Exposures per Issuer ¹ %
AAA	0.0↔100	15
AA- to AA+	0.0↔100	12.5
A- to A+	0.0↔80	7.5
BBB- to BBB+	0.0↔30	5

Sector Limits¹

	Maximum %
NZ Government, Government Department or Government Guaranteed	100
NZ Corporate and Bank Debt	100
NZ Local Authority (including LGFA)	60
NZD Kauri Bonds	40
Offshore NZ and Australian debt securities hedged to NZD	30
NZ Mortgage Backed and Asset Backed Securities	20

Credit Ratings

- The ratings referred to in this Investment Mandate are the long-term credit ratings of Standard & Poor's. An equivalent short-term rating, or an equivalent rating from a recognised rating agency is permitted.
- Unrated debt issued by NZ Local Authorities that is secured by rates will be rated by the Portfolio Manager but will not be rated higher than 'A' credit rating.
- If an issue does not have a credit rating, the credit rating of the issuer or deposit taker applies.
- Derivative counterparties listed in the Nikko AM NZ Approved Counterparty List.
- Security lending permitted with 'A' rated counterparties.
- Purchase of sub investment grade debt is prohibited, but in the event of a credit rating downgrade below investment grade the manager may remain invested.
- Investment prohibited in any managed investment scheme that is not a portfolio investment entity for the purposes of subpart HM2 of the Income Tax Act 2007.

Social and Responsible Investing (SRI) Restrictions

Securities described under 'Authorised Investments' that are issued by organisations where a share of their revenue is from the following industries are prohibited:

- Adult entertainment: Companies with > 10% revenue from adult entertainment-related business activities.
- Alcohol: Companies with > 10% revenue from alcohol-related business activities.
- Controversial weapons/armaments: companies directly involved in the development and production (manufacture), sale or distribution of cluster munitions; anti-personnel mines; and biological, chemical or nuclear weapons.
- Fossil fuels: Companies with >10% revenue from the extraction of thermal coal and/or tar sands oil.
- Gambling: Companies with > 10% revenue from gambling-related business activities.
- Tobacco: Companies with > 10% revenue from tobacco-related business activities.

And other industry sectors as determined by the Manager

The revenue thresholds will be reviewed periodically based on the available information, and in any event no less than annually.

¹ The issuer limits for NZ Government, Government Department or Government Guaranteed sectors are 100%, and for LGFA is 20%.

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Currency Management

Foreign currency exposures created as a consequence of capital markets investment are hedged to NZD within an operational range of 95% to 105%.

Portfolio Management

The Fund is permitted to maintain an overdraft with a registered bank in order to provide liquidity to fund redemptions and facilitate settlements for the Fund.

The Manager shall not be deemed to have breached the Investment Mandate if any of the mandated minimum or maximum ranges are exceeded as the result of:

- the value of any asset changing solely as a result of market movements;
- contributions to or withdrawals from the Fund; or
- a change in the nature of any investment (whether through change in business activity or credit rating).

This is conditional upon the Manager within five business days of being aware of the range being exceeded, re-weighting the portfolio to be within the mandated ranges, unless the Supervisor otherwise agrees in writing.



Noted by Supervisor

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Version Control	Reasons for Change	Author/Editor	Date
Version 1.0	Initial Draft for Review	James Rogers	07 July 2017
Version 2.0	Final mandate approved by CRD	Hayley Cassidy	18 July 2017
Version 3.0	Benchmark and objective change CRD	Tim Morrison	22 Jan 2019
Version 4.0	Add SRI restrictions	Investment Committee	June 2020
Version 5.0	Clarify the inclusion of Australian Securities in mandate	Investment Committee	August 2021
Version 6.0	Remove wording revenue assessment of financial statements and replace	Compliance Department	26 November 2021
Version 7.0	<p>Addition of: New Zealand government, local government or corporations issuing debt in foreign currencies.</p> <p>Any Australian APRA authorised deposit taking institution who have ownership of greater than 50% of a New Zealand subsidiary issuing in AUD or NZD</p>	Hilary McWhinnie	20 November 2023