Nikko AM NZ Unit Trusts (Retail) — Fund Summary

Nikko AM NZ Corporate Bond Fund — 30 September 2015

Fund manager

Nikko Asset Management New Zealand Limited (Nikko AM).

Nikko AM is Asia's premier global asset manager and is the only dedicated global investment manager in New Zealand. We actively manage over NZ$4.5 billion of investments for a diverse group of clients, including superannuation schemes, charitable trusts, KiwiSaver scheme providers, corporations and local government along with providing services to financial intermediaries through wrap platforms.

We offer investment management services in domestic sectors (equities, fixed interest and cash) through our Auckland-based investment team and employ offshore managers to manage global sectors (global equities, global bonds and alternative investments).

Portfolio managers

Fergus McDonald, Head of Bonds and Currency – Fergus is responsible for the investment strategy and portfolio construction of Bond, Cash and Currency mandates. He has been actively involved in the New Zealand financial markets since 1981 and has considerable experience in developing and managing a diverse range of fixed interest and option portfolios.

Ian Bellew, Fixed Income Manager – Ian joined Nikko AM in 1998 and is responsible for the implementation of investment strategy and day to day management of the fixed income and option portfolios. Ian also contributes to team decision making by analysing economic information and identifying global and domestic investment trends.

Fund launch

July 2009

Investment objective

The objective of the Fund is to construct a portfolio of authorised investments that outperform the Fund's benchmark by 1.5% per annum over a rolling three year period before fees, expenses and taxes.

Benchmark

S&P/NZX NZ Government Stock Index

Investment philosophy

The Fund is managed by Nikko AM's fixed interest team and is designed to provide regular quarterly income whilst preserving the capital value of investors' funds.

It is constructed to achieve a weighted average credit rating of A (S&P rating) on capital invested.

Structure and taxation

The Fund vehicle is a Unit Trust and Portfolio Investment Entity (PIE) which is priced daily. Unit holders elect their own Portfolio Investment Rate. Information is provided to the IRD and unit holders on an annual basis.

PIE eligibility

Nikko AM may take any action it deems appropriate to ensure the Fund remains eligible to be a PIE. This includes the ability of Nikko AM to compulsorily withdraw a unit holder's units and pay the proceeds to that unit holder's nominated bank account.

FundSource New Zealand Fixed Interest FUND MANAGER OF THE YEAR 2014

Distributions

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

Hedging policy

Assets and liabilities are hedged to NZD.

Investment restrictions

Below are the investment ranges for the credit rating exposures and the sector limits in which the Fund will primarily invest.

Credit Rating	Maximum exposure per Issuer	Range
AAA rated	15.0%	0% – 100%
AA- to AA+ rated	10.0%	0% – 100%
A- to A+	7.5%	0% – 80%
BBB- to BBB+	5.0%	0% – 30%
Unrated to BB+	n/a	0%

Sector Limits	
NZ Government or Government Guaranteed	100%
NZ Corporate Debt	100%
NZD Corporate Debt issued under Australasian documentation	50%
Offshore NZ Corporate Debt Hedged to NZD	20%
NZ Mortgage Backed Securities	20%
CDO's, CLO's and similar debt structures	0%

Management fees and other charges

A management fee of 0.70% per annum calculated as a percentage of the gross asset value of the Fund will be calculated and deducted from the Fund. This fee is calculated daily and is payable to Nikko AM. The management fee may be reduced or waived at our discretion.

Nikko AM may recover expenses (including the Trustee fee) up to a maximum of 0.25% per annum from the Fund.

Buy/sell spread

Nil

Trustee

Public Trust

Custodian

Public Trust as legal custodian, BNP Paribas Fund Services Australasia Pty Limited delegated as functional custodian.

Minimum investment

Initial investment	$5,000
Further investments	$1,000

The Manager may accept applications for investments below the minimum investment amount at its discretion.

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Performance (NZD returns; before tax & after fees)

1 month	3 months	6 months	1 year
0.27%	2.08%	3.62%	8.45%
2 years (pa)	**3 years (pa)**	**5 years (pa)**	**Inception (pa)***
7.19%	5.92%	6.52%	7.33%

* July 2009

Distributions

cents per unit	Mar	Jun	Sep	Dec
2015	1.25	1.30	1.20	
2014	1.60	0.80	1.50	1.25
2013	1.30	1.30	0.80	1.10
2012	1.40	1.80	1.25	1.75

Asset allocation

Corporate Bonds	34.4%
New Zealand Banks	47.3%
SOE and Local Authority	18.3%

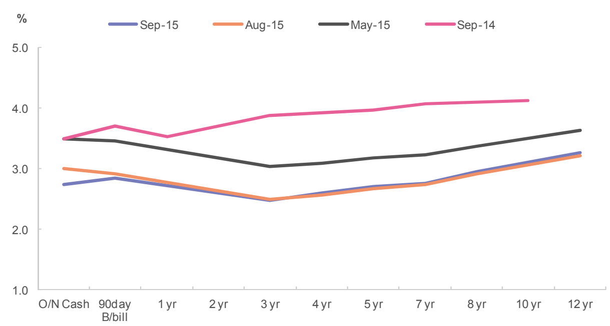
Credit rating profile

S&P Rating	% of portfolio	Number of holdings
AAA	1.0%	2
AA	44.9%	36
A	29.8%	17
BBB	24.3%	20

Top 10 issuer exposures (% of fund)

Bank of New Zealand	7%	Spark NZ	6%
Rabobank	7%	Kiwibank	6%
Fonterra	7%	NZ Government	5%
ANZ Bank NZ	6%	NZ LGFA	4%
Westpac Banking	6%	Commonwealth Bank	4%

New Zealand yield curve



Duration and yield

Duration	Fund 3.75 years	vs benchmark 4.41 years
Yield (gross)	Fund 4.0%	vs benchmark 2.75%

Commentary

There was some difference in performance across the bond indices as the government yield curve and swap curve moved in different directions. The New Zealand Government Bond Index, which has duration of 4.4 years, produced a return of 0.10% for the month while the All Swap index (duration 4.1 years) returned 0.57%.

New Zealand Government bond interest rates finished marginally higher in yield by 2-7 basis points; whereas New Zealand swap rates (the rates that credit margins on corporate bonds are priced over) were lower in yield by 5-9 basis points over the month and 38-41 points lower over the quarter across the yield curve. There was a lack of offshore demand for New Zealand governments, resultantly corporate bonds mostly performed better than government bonds over the month as swap margins narrowed. Credit margins on New Zealand bonds were a mixed story. Corporate names that are popular with retail investors are still managing to perform well, although there has been some widening pressure on wholesale deals and bank names where there is expected to be more supply in the future.

The Reserve Bank of New Zealand (RBNZ) is still widely expected to reduce the Official Cash Rate (OCR) further from 2.75% to 2.5% this year. This has been supporting demand for bonds in the 3-5 year part of the yield curve with expectations these rates could "flatten "further. We have continued to purchase 3-5 year maturity bonds funded by cash and selling 1-2 year maturities as we believe it is likely the front of the yield curve will remain low over the remainder of this year and into 2016. Some commentators have been forecasting the OCR could be reduced to a terminal rate of 2% – a new low for New Zealand – however, we do not believe the necessary conditions are in place for such a move at this stage. Such conditions would be a further significant deterioration in New Zealand's terms of trade as a result of lower commodity prices or possibly a weaker global outlook that impacts our major trading partners.

There remains considerable concern over the Chinese economy and the prospects for commodity demand. Fortunately there has been some price improvement at recent dairy auctions and New Zealand immigration and tourism numbers remain strong. The RBNZ has acted early to stimulate the economy and reduce the severity of any slowdown. A lower New Zealand dollar and lower short term interest rates will provide some relief and over time should lead to higher inflation expectations, so New Zealand is still fairly well positioned relative to other developed nations.

US bond markets have continued to be volatile, albeit in a relatively narrow range. Equity markets have had some volatile days, largely due to weaker data from China, and the market has been wavering between "hot and cold" on the prospects of a rate rise from the US Federal Reserve. Longer term interest rates in New Zealand will likely continue to be influenced by global markets, and in particular the US 10-year rate. If we do see rates higher, a steeper yield curve is typically of benefit to bond investors and we are awaiting higher absolute levels of interest rates to purchase additional longer maturity bonds which will help increase the portfolio running yield.

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