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Tyndall Unit Trusts (Retail) — Fund Summary

Tyndall Income Fund — 31 January 2012

Fund manager

Tyndall Investment Management New Zealand Limited (Tyndall).

Tyndall manages $3.4 billion of funds for a diverse group of clients, including superannuation schemes, charitable trusts, KiwiSaver scheme providers, corporations and local government. Tyndall also offers services to financial intermediaries through wrap platforms. Tyndall is a wholly owned subsidiary of Nikko Asset Management Co., Ltd., a Japanese asset management group.

Tyndall offers investment management services in domestic sectors (equities, fixed interest and cash) through its Auckland-based investment team and employs offshore managers to manage global sectors (global equities, global bonds and alternative investments).

Portfolio managers

Fergus McDonald, Head of Bond 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 Tyndall 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

1 October 2007

Investment objective

To construct a portfolio of authorised investments that earn a gross return in excess of 10% per annum measured over a three year rolling period.

Benchmark

10% per annum measured over a three year rolling period

Investment philosophy

The Fund is managed by Tyndall's fixed interest team, and is designed to provide regular quarterly income by investing in a diversified portfolio of corporate debt, capital guaranteed debt and Tyndall's option strategy. It is constructed to achieve a weighted average credit rating of A (S&P rating) on capital invested.

Tyndall's option strategy invests into New Zealand Registered Banks with a minimum long term credit rating of A from Standard & Poors, or equivalent from a recognised rating agency, producing a steady and secure income stream. The assets are then used as collateral security for derivatives, in particular selling options on long-term NZ, US, UK, Euro bloc or Australian Government stock.

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

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

Distributions

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

Hedging policy

Assets and liabilities are hedged to NZD at the discretion of the Manager.

Investment ranges

	Maximum exposure per Issuer	Range
Debt issues rated A- or higher	15.0%	0% – 100%
Debt issues rated BBB+ or lower	10.0%	0% – 40%
Unrated debt issues	2.5%	0% – 10%
Capital Guaranteed Debt issues (minimum Guarantor Rating of A)	15.0%	0% – 45%
Option Strategy	30.0%	0% – 30%

Management fees and other charges

A management fee of 0.80% per annum calculated as a percentage of the Net Asset Value of the Fund will be calculated and deducted from the Fund. This fee is calculated daily and is payable to Tyndall. The management fee may be reduced or waived at Tyndall's discretion.

Trustee Fee of up to 0.06% per annum charged to the Fund in addition to above.

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

Brokerage charges

Nil

Trustee

Public Trust

Custodian

Public Trust

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.

FundSource
Fixed Interest
FUND MANAGER OF THE YEAR 2011

Note: Per Awards announced by FundSource, the investment strategy and research company. This Award should not be read as a recommendation by FundSource. For further advice on the relevance of this award to your personal situation consult your authorised financial adviser, or visit www.fundsource.co.nz.

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Performance (NZD returns; before tax & fees)

	Tyndall %	Benchmark %	Excess %
1 month	0.79	0.80	-0.01
3 months	**4.18**	**2.41**	**1.77**
6 months	-0.75	4.88	-5.63
1 year	**6.62**	**10.00**	**-3.38**
2 years (pa)	8.35	10.00	-1.65
3 years (pa)	**11.38**	**10.00**	**1.38**
Since inception* (pa)	9.58	10.00	-0.42

* The Tyndall Income Fund was established in October 2007.
Benchmark: 10% pa measured over a three year rolling period

Fund size

$6.4 million

Asset allocation

Tyndall Option Fund	27.5%
Tyndall Corporate Bond Fund	72.5%
Cash / short-term assets	0.0%

Top 5 corporate issuer exposures (% of fund)

Bank of New Zealand	6.5%
ASB Bank Limited	4.9%
Insurance Australia	4.4%
Auckland Council	4.4%
Telecom Corporation of NZ	3.7%

Bond portfolio yield

5.00%

Commentary

The **Tyndall Income Fund** performed in line with its benchmark return in January, with a strong positive contribution from the Tyndall Option Fund and a small positive contribution from the Tyndall Corporate Bond Fund.

The **Tyndall Option Fund** returned 2.18% over January 2012. US Treasury 10 year yields traded in a 30 basis point range from 2.1% to 1.8% over the month, closing January at close to the low in yields. This trading range is modest relative to the large movements experienced over 2011.

Low interest rates seem to be with us for sometime as the European sovereign debt crisis is unlikely to see a definitive end in 2012 and greater demands for austerity risks choking the growth that many believe to be the only effective way out. A new round of S&P downgrades also kept investors on edge and encouraged strong investment flows into the 'safe haven' US and German bond markets.

In contrast to Europe, the US economic environment looks more positive. However the Federal Reserve believes growth remains well below trend. Without a significant pickup in economic growth the strength in the labour market will remain less than desirable and therefore interest rates will stay low. The Federal Reserve has pushed out their time horizon to at least late 2014 before any rise in short term rates is likely. With US 10 year rates already below 2% the risk for significant moves is to the upside. However, in the short to medium term we foresee few pressures to cause yields to back up meaningfully.

New Zealand government stock yields moved higher across the board with the largest losses being in the longer duration assets. With global short term rates on hold for at least another year and probably well into 2014, there seems to be little global pressure for higher rates in New Zealand. Domestic pressure on rates is also low as inflation surprised on the down side with a 0.3% fall in the December quarter CPI (1.8% annual).

With short term rates anchored at 2.5% it is unlikely longer term bond yields will rise meaningfully, although with yields at close to record lows, an upward movement in rates is where the risks lie.

After a flurry of corporate bond issuance late in 2011 the start of 2012 has been quiet. The exception has been a number of covered bond issues being launched by Australasian banks as they seek to diversify their funding sources in a cost effective manner. This issuance has seen bank credit margins expand to a level that seems relatively good value over the medium term. The Local Government Funding Authority (LGFA) is likely to make their first of a regular series of bond tenders in February. The LGFA debt issuance is to be managed by the NZ Debt Management Office and the LGFA is likely to issue similar maturities to the New Zealand Government.

Our outlook is for modest interest rate movements over 2012 with a bias towards rates moving higher by year end. We will continue to maintain a yield advantage over NZ Government Stock rates within the portfolio and focus on enhancing the credit quality of the portfolios as more financial market turbulence emanating from Europe cannot be ruled out.

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