

# NIKKO AM INCOME FUND

## Monthly Fact Sheet

### Why Nikko Asset Management NZ?

As a dedicated global investment manager Nikko AM NZ pairs local knowledge and experience with significant global resources. The Nikko group manages around US\$200 billion globally, including around NZ\$5 billion in New Zealand.

### Fund overview

The Fund aims to provide investors with regular income from an actively managed investment portfolio while protecting the capital value of investors' funds.

### Benchmark

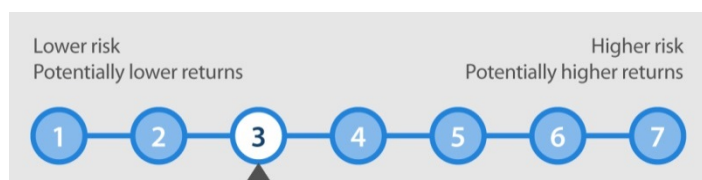
**Composite of** (from 1 July 2016)

- Bloomberg NZBond Govt 0+ Yr Index 70%
- Bloomberg NZBond Bank Bill Index plus 4% pa 30%

### Performance objective

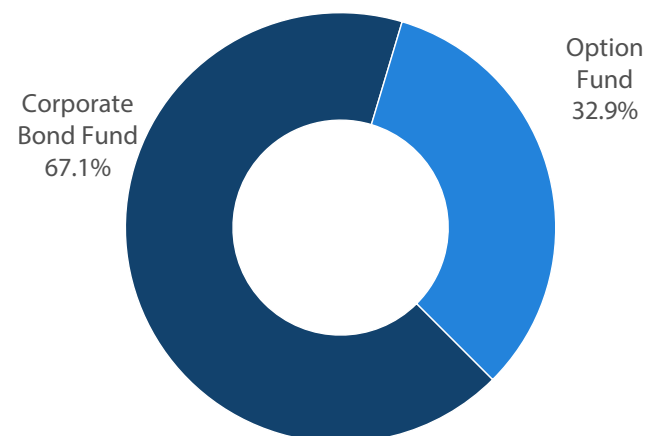
The aim is to construct a portfolio that earns a return of 6.5% per annum over a rolling three year period before fees, expenses and taxes.

### Risk indicator



Standard deviation of returns before tax and after fees over a rolling 5 years to the last calendar quarter

### Asset allocation



### Portfolio management team

**Fergus McDonald** is Head of Bonds and Currency and is responsible for the investment of the Bond, Cash and Currency mandates. Fergus has been actively involved in the NZ financial markets since 1981.



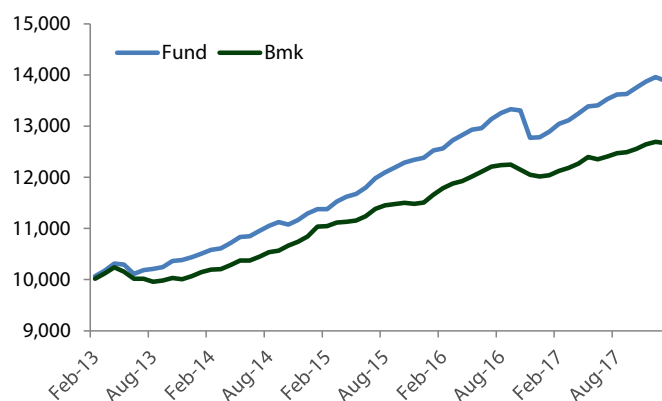
The portfolio management team for the domestic fixed income funds includes Ian Bellow, Fixed Income Manager and Tim O'Loan, Fixed Income Analyst.

### Performance returns

	Gross <sup>1</sup>	Benchmark	Net <sup>2</sup>
1 month	-0.54%	-0.20%	-0.49%
3 months	0.96%	0.91%	0.81%
1 year	7.69%	5.22%	6.70%
2 years	5.28%	4.32%	4.25%
3 years (pa)	6.87%	6.18%	5.77%
5 years (pa)	6.79%	7.69%	5.78%
10 years (pa)	8.23%	8.84%	7.29%

- Gross Returns are before tax and before the deduction of fees.
- Net Returns are before tax but after the deduction of fees and expenses.

### Five year cumulative performance (gross) <sup>1</sup>



## Top 5 corporate issuers (% of fund)

ANZ	11.2%
Kiwibank	9.5%
Westpac Banking Corporation	9.0%
ASB Bank	8.5%
Bank of New Zealand	7.4%

Aggregation of the Option and Corporate Bond Funds

**Corporate Bond Fund yield (gross): 3.4%**

## Key fund facts

### Strategy launch date

October 2007

### Strategy FUM

\$11.3m

### Fund structure

PIE fund - retail

### Fees in retail fund:

Management fee 0.80%p.a

Expenses (maximum) 0.25%p.a

Expenses (current) 0.25%p.a

### Buy/sell spread

nil

### Distributions

Calendar quarter

### Benchmark

**Composite of** (from 1 July 2016):

Bloomberg NZBond Govt 0+ Yr Index @ 70% plus

Bloomberg NZBond Bank Bill Index plus 4% pa @ 30%

### Hedging

All investments will be in New Zealand dollars

## Corporate Bond Fund commentary

The fund performed well versus its NZ government benchmark. Credit was the best performing sector and government bonds the poorest performer moving higher in yield on a relative basis versus swaps and credit. The moderate short duration positioning was a positive as yields moved higher. Also adding value was the higher running yield and credit margin contraction. We don't expect margins will expand significantly while the demand/supply dynamics remain supportive. The companies issuing investment grade corporate bonds in NZ remain financially strong and we believe the NZ credit market will perform well compared with global peers.

## Option Fund commentary

The Option Fund delivered a negative return over January, declining by 2.08%. The US 10 year Treasury bond yields increased steadily over the month beginning at 2.41% before closing on their highs of 2.73%. The rise in yields passed through a number of sold puts options resulting in trading losses greater than the option income. As is usually the case the income from writing new options has increased significantly as volatility levels increased. If current levels of volatility are maintained income generated by the Fund should remain attractive however the magnitude of yields changes on the US 10 year bond will continue to determine the overall return of the fund.

Federal Reserve officials, meeting for the last time under Chair Janet Yellen, left borrowing costs unchanged while adding emphasis to their plan for more hikes, setting the stage for an increase in March under her successor Jerome Powell.

The committee expects that economic conditions will evolve in a manner that will warrant further gradual increases in the federal funds rate. Changes from previous statements acknowledge stronger growth and more confidence inflation will rise to their 2% target. There is also speculation the Fed may pick up the pace of interest rate increases. Fed officials also expect inflation to move up over 2018 and then stabilize around their goal.

With her term ending, Yellen is handing the Fed reins to Powell who has backed her gradual approach and is widely expected to raise interest rates at the FOMC's next meeting for the sixth time since 2015. Fed officials are hoping to keep a tight labour market from overheating with cut raising borrowing costs so fast that it would stifle the economy.

The Fed said 'gains in employment, household spending and business fixed investment have been solid and the unemployment rate has stayed low' however noted that inflation remains low. In our opinion this points to a gradual 'normalisation' of monetary policy with the Fed still wary about pushing rates up too far and too fast.

## Compliance

The Fund complied with its investment mandate, SIPO and trust deed during the month.

## Contact us

www.nikkoam.co.nz | nzenquiries@nikkoam.com

### Important Information

This document is issued by Nikko Asset Management New Zealand Limited (Company No. 606057, FSP No. FSP22562), the investment manager of the Nikko AM NZ Investment Scheme and the Nikko AM NZ Wholesale Investment Scheme. This information is for the use of researchers, financial advisers and wholesale clients. This material has been prepared without taking into account a potential investor's objectives, financial situation or needs and is not intended to constitute personal financial advice, and must not be relied on as such. Recipients of this document, who are not wholesale investors (in accordance with Schedule 1, Clause 3 Financial Markets Conduct Act 2013), or their duly appointed agent, should consult an Authorised Financial Adviser and the relevant Product Disclosure Statement. Past performance is not a guarantee of future performance. While we believe the information contained in this presentation is correct at the date of presentation, no warranty of accuracy or reliability is given and no responsibility is accepted for errors or omissions including where provided by a third party. For full details on the fund, please refer to our Product Disclosure Statement on [nikkoam.co.nz](http://nikkoam.co.nz).