

# 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

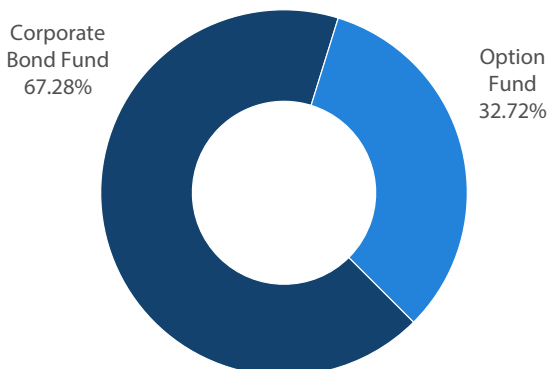
The aim is to construct a portfolio that earns a return of 6.5% per annum over a rolling three year period before fees, expenses and taxes.

### 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.



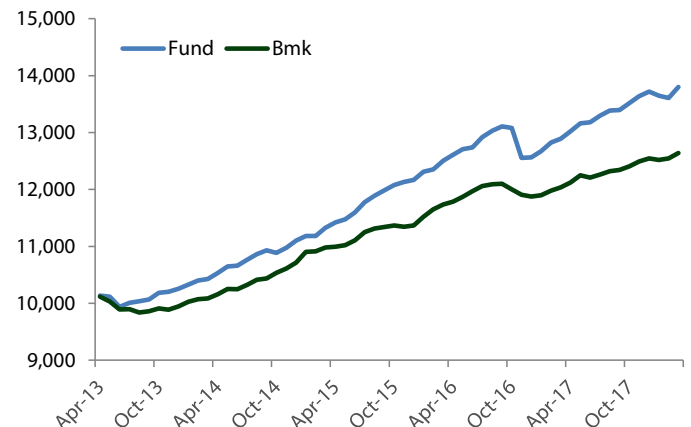
The portfolio management team for the domestic fixed income funds includes Ian Bellew, Fixed Income Manager and Tim O'Loan, Fixed Income Analyst.

### Performance returns

	Gross <sup>1</sup>	Benchmark	Net <sup>2</sup>
1 month	1.44%	0.75%	1.34%
3 months	0.58%	0.75%	0.34%
1 year	7.05%	4.97%	5.92%
2 years	5.05%	3.99%	3.92%
3 years (pa)	6.81%	5.96%	5.67%
5 years (pa)	6.66%	7.56%	5.62%
10 years (pa)	8.26%	8.77%	7.30%

1. Gross Returns are before tax and before the deduction of fees.
2. 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)

Kiwibank	9.9%
ANZ	9.5%
ASB Bank	8.2%
BNZ	6.6%
Cooperative Rabobank	5.4%

Aggregation of the Option and Corporate Bond Funds

**Corporate Bond Fund yield (gross): 3.55%**

## 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 underperformed the NZ government benchmark. Government bonds were the best performers while swap and credit struggled in comparison. The moderate short duration positioning was a negative as yields moved lower.

The NZ economy continues to perform well. We have forecast a low and stable cash rate and the expected slowdown in many of the supportive factors hasn't been that evident; house prices, commodity prices, immigration, employment, confidence and general activity all remain relatively robust. One of the big questions for bond markets remains expectations for inflation although we don't have much higher inflation outcomes or interest rates as a base case at this stage.

## Option Fund commentary

The Option Fund performed strongly over the past month, returning 3.66% in March. After almost reaching the psychologically important 3% level in February the yield on US 10-year Treasury Bonds retreated somewhat over March to trade in a modest 19 basis point range, reaching an intra-month high of 2.93% and a low of 2.74% before closing the market at 2.75%.

We are continuing to see higher levels of volatility priced in to the options the fund sells compared to the levels experienced over much of 2017. Although we are seeing a more volatile market in US Treasury Bonds the volatility has not been extreme enough to cause harm to the Option Fund performance. If current levels of volatility are maintained, income generated by the Fund should be at attractive levels however the magnitude and speed of yield changes in the US 10-year Treasury Bonds will continue to determine the total return of the Fund.

Increased global trade tensions was a dominant theme over the month with President Trump kicking things off with proposed US import tariffs on steel and aluminum. The tariff policy was watered down with many countries exempted until the trade policy boiled down to a trade war principally against China. The market fears a "tit-for-tat" trade war and the possibility of slowing global growth. This anxiety of the unknown consequences of a trade war saw markets tending to reduce risks in equity markets and reweight to bonds after their lift in yields.

An added source of reduced market sentiment was President Trump ousting a number of key advisors including his economic advisor Cohn and national security advisor McMaster.

The Federal Reserve hiked rates for a sixth time this cycle and continued to project three hikes for this year. US growth and inflation forecasts were nudged higher suggesting US monetary policy is on a clear tightening path with some way to go yet.

## Compliance

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

## Contact us

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### Important Information

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