Factsheet 30 November 2018

NIKKO AM NZ INCOME STRATEGY

Applies to: Nikko AM Income Fund (retail)

Market Overview

- NZ interest rates spiked higher early in November, but finished the month little changed.
- US long term interest rates moved higher during the month however closed November at lower levels.
- Short term interest rates are expected to rise again in December but the Federal Reserve may slow the rate of increases in 2019.

Fund Highlights

- The fund returned 0.21% (before tax after fees and expenses) over November, outperforming benchmark.
- NZ Government bonds performed well over the month compared to returns from the wider bond market.
- The Corporate Bond fund has been buying bonds to maintain a higher yield when interest rates look attractive.

Performance

	One month	Three months	One year	Three years (p.a)	Five years (p.a)	Ten years (p.a)
Retail[1]	0.21%	0.53%	4.72%	4.90%	6.07%	7.18%
Benchmark[2]	0.15%	0.64%	4.54%	4.88%	6.90%	8.44%

1. Returns are before tax and after the deduction of fees and expenses and including tax credits (if any)
2. Benchmark: Composite of (from 1 July 2016) of 70% Bloomberg NZBond Govt 0+ Yr Index and 30% Bloomberg NZ Bond Bank Bill Index plus 4%pa. No tax or fees.

Portfolio Manager

Fergus McDonald,

Head of Bonds and Currency

Fergus 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 Matthew Johnson, Fixed Income Manager.

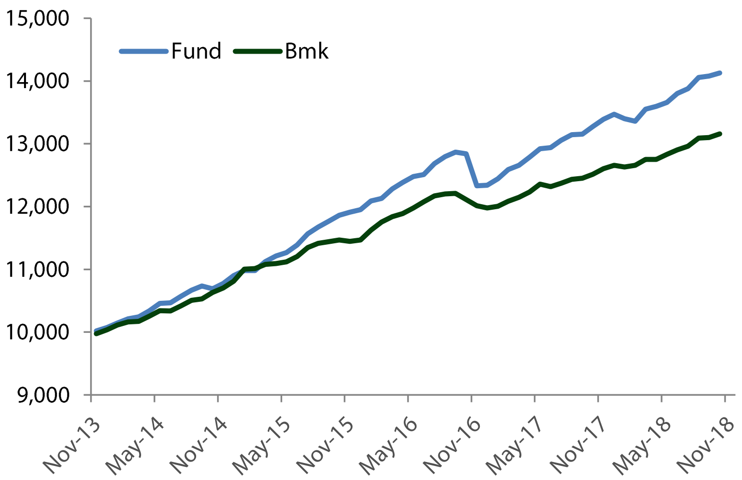
Overview

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

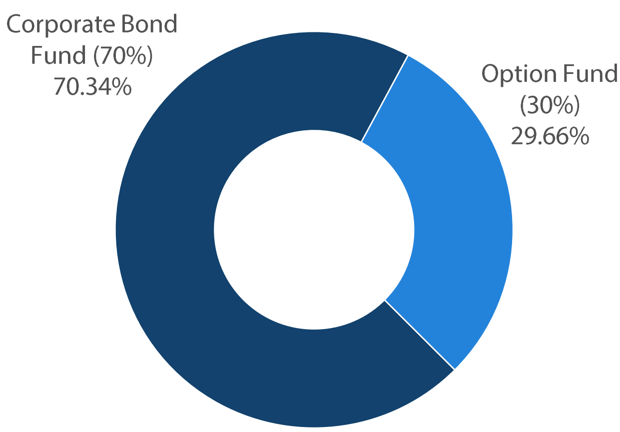
Objective

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.

Five Year Cumulative Performance[1&2]



Asset Allocation



nikko am
Nikko Asset Management

Top 5 Corporate Issuers*	(%)
Kiwibank	9.78
Westpac New Zealand	8.81
Bank of New Zealand	8.13
ANZ	7.73
ASB bank	7.26

Credit Quality	(%)
AAA	2.19
AA	54.23
A	21.18
BBB	19.59
NR (incl options)	2.81

Yield – Corporate Bond Fund
Fund (gross) 3.44% vs Benchmark 2.12%

Option Fund Commentary

The strength of the US economic expansion looks to be reducing however US central bankers are likely to continue to raise short term interest rates again in 2019, but to a lesser extent than previously indicated. It is important to note that the economy remains healthy although the prospects for further robust growth are diminished. We expect the Federal Reserve to increase rates one more time in 2018 and maintain the theme that further gradual increases in rates is consistent with a sustained expansion of economic activity, strong labour market conditions and inflation near their 2% medium term objective. The direction of short term interest rates in the US appears relatively predictable, however there is divergence in market views as to whether the long end of the yield curve should be higher or lower in yield. The US growth expansion is at record tenure and equity markets are also at high levels. Recent turbulence in equity markets, in some way caused by rises in interest rates, are a further sign the Federal Reserve will tread carefully when planning any moves in monetary policy settings in the new year. Uncertainty surrounding the Trump administration's trade policy and how the implementation of it will impact individual companies, industries and global growth levels continues to keep investors nervous. Volatility in bond markets has been relatively contained but US 10 year bonds have until recently been making moves to push higher in yield. Higher levels of Treasury Bond issuance to fund the expanding US fiscal deficit is widely expected and is an additional reason for investor disquiet. It remains to be seen if investors will see these higher yields as attractive buying opportunities or if rates drift higher over the next twelve months. The US 10 year bond yield traded in a 26 basis point range over the month , moving between a low of 2.99% and a high of 3.25% before closing on the November lows at 2.99%.

Corporate Bond Fund Commentary

There were some reasonably large movements in interest rates during the month. Following a string of surprisingly good economic data, including higher GDP, consumer prices and lower unemployment, NZ bonds spiked around 30 basis points higher in yield early in the month as investors reassessed their expectations for the future path of interest rates. By month-end, rates retraced their moves and NZ bonds finished only marginally higher in yield. Local sentiment towards the economy had been perhaps overly negative, whereas actual activity shows the economy tracking along at a reasonable pace. Balancing this, global conditions deteriorated over the month with some increased uncertainly around growth forecasts. The Reserve Bank's commentary was little changed although the market has dropped expectations for a rate cut and is currently pricing a period of stability before eventual rate increases late 2019. NZ Government bonds were the better performing sector over the month as swap spreads and credit issues moved slightly wider in spread and dragged back performance. Shorter maturity bonds and funds with a shorter duration positioning were less negatively impacted than longer bonds as interest rates moved higher in yield.

Key Fund Facts

Distributions
Retail fund: Calendar quarter

Estimated annual fund charges
Retail fund: 1.05%, refer PDS for more details

Hedging
All investments will be in New Zealand dollars

Buy / Sell spread:
0.0% / 0.0%

Strategy size
$13.75m

Strategy Launch
October 2007

Compliance

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

Contact Us

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