

JMIS FIXED INCOME FUND

Performance Comments

The asset value of the Fund at 30 September 2016 was \$61.2 million and the base price was \$1.0926, an increase of +1.4% over the quarter, including the 0.75 cent distribution. The 90-day bank bill rate provided a return of +0.6% in the same three-month period.

Wholesale interest rates declined over the quarter, with the benchmark 5-year interest rate swap falling from 2.33% to 2.12%, however this rate was lower during the quarter (2.06%). In the days following 30 September, this benchmark had risen to 2.25%.

Over the course of the quarter the RBNZ lowered the Official Cash Rate (OCR) from 2.25% to 2.00%, stating stubbornly low inflation and an inflated exchange rate were continuing to impact on imported inflation and their decisions. The Bank has also stated that further monetary policy accommodation is needed with speculation now turning to a further 25 basis point cut to the OCR in November.

We believe that key factors to consider in the outlook for interest rates at the moment are the likely direction and magnitude of any moves in offshore interest rates, in particular in the US and the extent to which the current strength in the domestic economy translates into inflationary pressure.

Longer term US interest rates have been climbing; the generic 10-year US Treasury Note yield fell to a low of 1.36% early in July and at the time of writing had climbed to 1.74%. This climb is in anticipation of the US Federal Reserve hiking the Federal Funds rate and entering into a tightening cycle. This has put upward pressure on longer term rates in New Zealand.

Short-term interest rates in New Zealand are more materially influenced by the level of the OCR, which as stated above is likely to be reduced by 25 basis points prior to the end of the year.

Fund Performance

The JMIS Fixed Income Fund has performed as follows:

To 30.09.16	3 Months %
Fund net return*	+1.4
Benchmark Index**	+0.6
Difference	+0.8
* These returns are after deductions for charges and before tax	
** Reflects no deduction for charges and tax	
Past performance is not necessarily indicative of future performance.	

Outlook

There are competing forces on the New Zealand interest rate curve. The direction of longer-term rates will be primarily influenced by movement in global bond rates and in particular US Treasury yields. These yields have risen in anticipation of a higher US Fed funds rate. Short-term rates will be anchored by the low OCR and the likelihood that low inflationary outcomes will continue to influence the RBNZ and dictate accommodative monetary conditions.

The fixed interest asset class has delivered pleasing returns over the last three years as interest rates have declined. The current nominal level of interest rates reduces the potential for further material declines, however the objective of the fund is to deliver returns similar to those available on investment-grade corporate bonds and we are comfortable that we will achieve that objective. We are forecasting that the current distribution of 3 cents per annum will be maintained.

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