

## NZ Bond Income Fund / UT36

The NZ Bond Income Fund is an alternative to direct bond investment and has therefore been designed, as much as possible, to mirror the features of the direct bond model.

The Fund invests primarily in fixed interest securities (bonds) of varying maturities, traded on the wholesale market, having a minimum credit rating of BBB (as defined by the Standard & Poor's, an equivalent ratings agency, or as assessed by the Manager). The Fund may invest directly or via another collective investment vehicle.

### Objective

The Fund objective is to provide investors with regular income whilst maintaining medium term capital stability.

### Investment Strategy

The Fund invests in a diversified portfolio of New Zealand debt securities. The portfolio will typically hold between 15 to 20 securities from a number of different issuers with an average duration of 2 to 6 years. The portfolio is generally a buy and hold strategy however, portfolio credit quality will be monitored and restructuring will be undertaken if deemed prudent.

### About the Manager

The NZ Bond Income Fund will be managed by AXA Global Investors, whose team has a wealth of experience in portfolio design, economic and investment research and product development. AXA Global Investors currently manages assets worth approximately NZ\$ 4 billion.

### About the Investment Manager

Day to day management of UT36 rests with Portfolio Manager, Stephen Hong. Stephen has been with AXA Global investors for five years and has 26 years industry experience. Stephen has extensive knowledge in managing New Zealand bond portfolios having been responsible for BNZ Investment Management's domestic bond portfolios in the seventeen years prior to becoming part of AXA Global Investors. Through this time Stephen has experienced many bond market cycles and has developed the expert skills and abilities necessary to analyse and select bond issues and structure bond portfolios to desired mandates.



## Key Fund Features

- Income is attributed to investors daily and distributed quarterly.
- Distributable income is the aggregate of interest income earned on non-derivative interest bearing assets, less expenses and taxes (excluding PIE taxes). While the Fund invests into another collective investment vehicle, the distributable income will include the interest income earned on that other collective investment vehicle's non-derivative interest bearing assets, less expenses and taxes (excluding PIE taxes), but excluding any fees payable to the manager and trustee where the manager and trustee are the same as for the Fund.
- The unit price excludes distributable income (except if distributable income is negative on any day). The unit price is therefore essentially a capital value and unit price fluctuations will be largely attributable to interest rate movements and the movement of security valuations to par value.
- The Fund is taxed under the PIE regime. Where investors have a cash management or deposit account (CMA or DA) PIE tax is paid from this account. Otherwise units are cancelled to pay PIE tax.
- The Fund is unitised, priced daily (providing daily liquidity) and assets are marked to market.
- Distributions are paid to an investors CMA or DA or to a nominated bank account.
- The fund has low fees. In particular, the management fee is 0.40% per annum (plus GST on 10% of the fee.)

## Investment Guidelines\*

Key guideline parameters are:

- Minimum credit quality, BBB
- Maximum held in A- or lower rated securities, 35%
- Maximum internally rated securities assessed to be of at least A- rating or better, 25%
- Duration to be between 2 to 6 years

\*These guidelines are subject to change at the discretion of the Fund Manager and are presented as a guide to investors only.

## Investment Proposition – indicative

Exposure to these investments is intended to be achieved via investment into UT12

Number of bonds	21
Average coupon	7.5%
Yield	5.9%
% A+ or above	69%
% below A+	31%
Duration	2.8 years

(Indicative as at 11 October 2010 at which time the Fund was not operative)

## Benefits for Investors

### Investment Proposition

Either directly or via investment into UT12:

- More diversified than most direct bond portfolios.
- Can participate in wholesale bond issues.
- Can participate in small bond offers.
- Wholesale bond yields above retail.

### Professional Management

- If investing directly generally a buy and hold strategy however, portfolio credit quality will be monitored.

### Administration

- The Fund can be included in template rebalancing.

### Taxation

- The Fund is taxed as a PIE
- Tax is administered and paid on behalf of investors

### Suitability for Trusts

- Distributable income and unit price movements provide an income/capital split for trusts.

### Reporting

- Full list of holdings

#### Disclaimer

The investment views in this publication do not constitute specific advice (whether of an investment, legal, tax, accounting or any other nature) to any person. The information has been published in good faith and has been obtained from sources believed to be reliable and accurate at the time of preparation. The opinions contained in this document reflect a judgement at the date of publication by AXA Global Investors and are subject to change without notice. An investment statement is available on request.