

Factsheet 30 November 2018

# NIKKO AM NZ BOND STRATEGY

Applies to: Nikko AM Wholesale NZ Bond Fund and Nikko AM NZ Bond Fund (retail)

## Market Overview

- NZ interest rates spiked higher early in November, but finished the month little changed.
- There was a marked increase in new bond deals with credit margins remaining relatively stable.
- Local economic activity appears to be improving, while global conditions have weakened.

## Fund Highlights

- NZ Government bonds performed well over the month compared to returns from the wider bond market.
- Shorter maturity bonds were less impacted by rising interest rates than longer maturities.
- The fund has been buying bonds to maintain a higher yield when interest rates look attractive.

## Performance

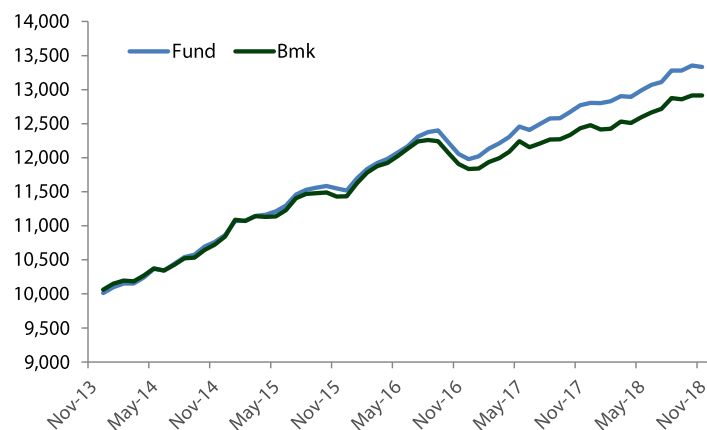
	One month	Three months	One year	Three years (p.a)	Five years (p.a)	Ten years (p.a)
Wholesale <sup>1</sup>	-0.13%	0.40%	4.41%	4.90%	5.92%	6.32%
Benchmark <sup>2</sup>	0.00%	0.28%	3.88%	4.15%	5.25%	5.21%
Retail <sup>3</sup>	-0.18%	0.23%	3.67%	4.11%	5.08%	

1. Returns are before tax and before the deduction of fees

2. Benchmark: Bloomberg NZBond Govt 0+ Yr Index. No tax or fees.

3. Returns are before tax and after the deduction of fees and expenses and including tax credits (if any)

## Five Year Cumulative Performance<sup>1&2</sup>



## 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.

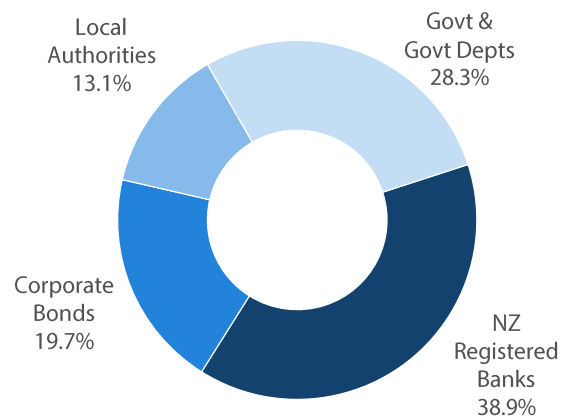
## Overview

The fund aims to provide investors with regular income by constructing an actively managed investment portfolio of New Zealand bonds, deposits and cash with the potential for capital gain from New Zealand dollar fixed interest markets.

## Objective

The fund aims to outperform the benchmark return by 1.00% per annum before fees, expenses and taxes over a rolling three year period.

## Asset Allocation



## NIKKO AM NZ BOND STRATEGY

Top 5 Corporate Issuers*	(%)	Credit Quality	(%)	Duration
Bank of New Zealand	8.26	AAA	15.06	Fund 4.34 years vs Benchmark 4.78 years
Fonterra Cooperative Group	6.42	AA	61.42	
Local Government Funding Authority	6.41	A	18.99	Yield
Westpac Banking Corporation	5.25	BBB	4.53	
ANZ Bank New Zealand	4.04			

\*excludes central government

## Market 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 toward 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 uncertainty around growth forecasts. The Reserve Bank's commentary was little changed although the market has canned 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.

## Fund Commentary

The fund underperformed the NZ government benchmark. The moderate short duration position helped but swaps and credit widened in spread and struggled to keep pace with the performance of government bonds.

We have been buying some longer maturity bonds as opportunities present themselves to maintain a higher running yield on the portfolio and maintain duration. This helped capture some of the back up in yields, and benefited the fund when interest rates moved lower at month end. Moves wider in credit margins offshore would suggest sentiment is likely for some widening in credit margins here. At this stage the domestic credit market has remained well supported absorbing the recent increase in supply. In response we have been investing in credit issues that we believe will likely be less impacted if margins widen. The upward slope of the swap curve has been reasonably stable with a spread of 80 basis points between the 2 and 10 year swap rates and the positive shape of the yield curve remains supportive of accrual trades. A modest relative duration position and higher running yield through high quality credit should continue to add value while interest rates remain in a fairly modest range and the yield curve remains positively shaped.

## Key Fund Facts

<b>Distributions</b>		<b>Estimated annual fund charges</b>	
Wholesale fund:	Calendar quarter	Wholesale:	Negotiated outside of unit price
Retail fund:	Calendar quarter	Retail:	0.725%, refer PDS for more detail
<b>Hedging</b>		<b>Buy / Sell spread</b>	<b>Strategy size</b>
All investments will be in New Zealand dollars		0.00% / 0.00%	\$283.7m
			<b>Strategy Launch</b>
			October 2007

## Compliance

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

## Contact Us

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