

NIKKO AM NZ BOND STRATEGY

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

Market Overview

- Longer term interest rates fell over December while short term rates were stable.
- NZ economic growth slowed in the September quarter pushing back the timing of rate rises even further.
- Global economic conditions have weakened and uncertainty about the future direction has increased.

Fund Highlights

- Longer term bonds performed well as interest rates fell.
- Shorter maturity bonds provided a low but stable return.
- Corporate and Bank bonds with strong credit ratings have performed well.

Performance

	One month	Three months	One year	Three years (p.a)	Five years (p.a)	Ten years (p.a)
Wholesale ¹	1.07%	1.48%	5.24%	5.37%	6.12%	6.25%
Benchmark ²	1.02%	1.46%	4.56%	4.49%	5.33%	5.08%
Retail ³	1.00%	1.31%	4.50%	4.58%	5.27%	

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)

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.

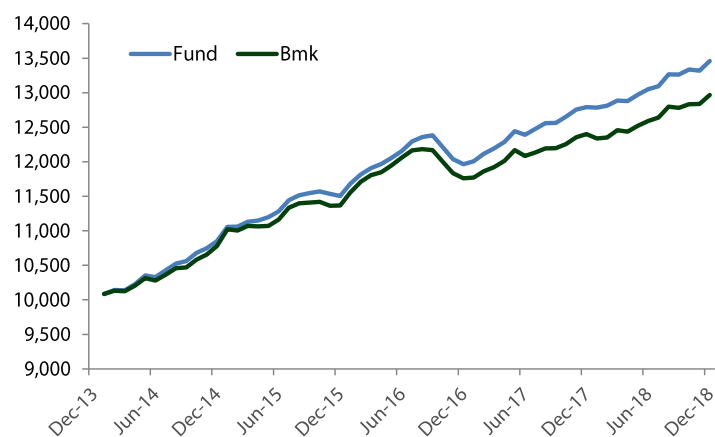
Overview

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.

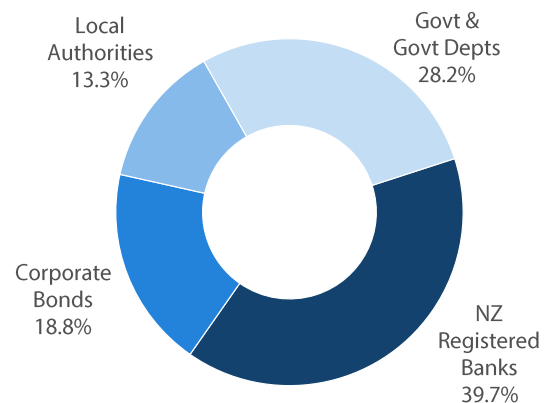
Objective

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

Five Year Cumulative Performance^{1&2}



Asset Allocation



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Top 5 Corporate Issuers*	(%)	Credit Quality	(%)	Duration
Bank of New Zealand	7.96	AAA	14.49	Fund 4.24 years vs Benchmark 4.80 years
Westpac Banking Corporation	7.37	AA	63.09	
Local Government Funding Authority	6.86	A	18.17	Yield
Fonterra Cooperative Group	6.13	BBB	4.25	
ANZ Bank New Zealand	3.89			

*excludes central government

Market Commentary

Falling equity markets, concerns about slowing global growth, trade tensions and the US Government shut down over the stalemate of funding for the US-Mexico border wall sapped confidence and drove investors into safe haven assets. High quality assets such as government bonds performed strongly in this 'risk off' environment, New Zealand government bonds were no exception and fell in yield under buying pressure as equity markets softened. Adding to the trend towards lower rates was New Zealand's poor September quarter GDP number. The Gross Domestic Product increased a disappointing 0.3% compared to the June increase of 1%. The 0.3% increase is the lowest quarterly number since December 2013 and reinforces the view that the Official Cash Rate is in no danger of being increased and the prospect of a cut is a real possibility especially as inflation pressures have moderated. This moderation is most obviously seen in the global fall in oil prices and along with them, a reduction in petrol pump prices. Also putting downward pressure on inflation is the rise in the NZ dollar from its recent lows reducing the cost of imported items. The reducing pace of house price growth and the psychological impact of smaller KiwiSaver balances after the equity market falls may reduce consumer confidence in the months ahead however the labour market continues to be strong which should underpin consumer spending levels.

Fund Commentary

The fund outperformed its benchmark over the month. Longer duration assets, bank and credit issues added value as did the recent addition of some new bond issues. The increased yield associated with these bonds benefited the fund while a modest short duration position detracted value relative to the benchmark. We continue to see strong investor demand for investment grade bonds. With NZ interest rates expected to remain stable over the months ahead higher yielding bonds from well rated issuers should continue to add value to the portfolio much in the same way they did over 2018. This sector of the market continues to have appeal and we will continue to focus our attention on selecting quality assets for the fund.

Key Fund Facts

Distributions		Estimated annual fund charges		
Wholesale fund:	Calendar quarter	Wholesale:	Negotiated outside of unit price	
Retail fund:	Calendar quarter	Retail:	0.725%, refer PDS for more detail	
Hedging		Buy / Sell spread	Strategy size	Strategy Launch
All investments will be in New Zealand dollars		0.00% / 0.00%	\$297.8m	October 2007

Compliance

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

Contact Us

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