

Factsheet 31 March 2019

# NIKKO AM NZ BOND STRATEGY

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

## Market Overview

- Global economic sentiment was generally negative sending global interest rates lower.
- The NZ Reserve Bank shifted to an easing bias.
- NZ short-term and long-term interest rates moved much lower in yield over the month.

## Fund Highlights

- NZ bonds performed well as interest rates fell.
- The supply/demand dynamics remain supportive of credit holdings.
- A higher running yield through holding quality credit continues to benefit the fund.

## Performance

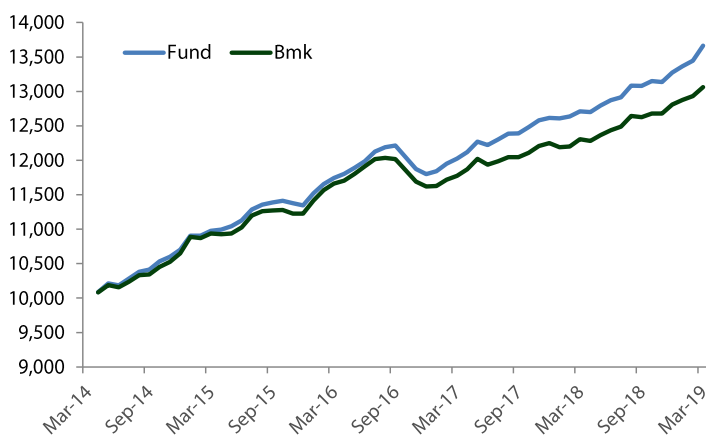
	One month	Three months	One year	Three years (p.a)	Five years (p.a)	Ten years (p.a)
Wholesale <sup>1</sup>	1.62%	2.94%	7.51%	5.18%	6.44%	6.72%
Benchmark <sup>2</sup>	1.49%	2.62%	6.82%	4.07%	5.62%	5.37%
Retail <sup>3</sup>	1.53%	2.73%	6.74%	4.40%	5.59%	

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

2. Current benchmark: Bloomberg NZBond Composite 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.

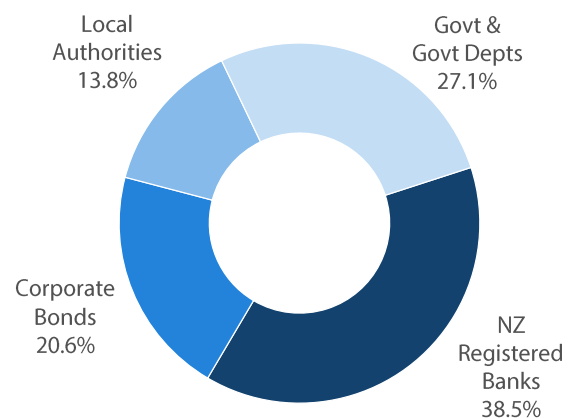
## Overview

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 0.60% per annum before fees, expenses and taxes over a rolling three year period.

## Asset Allocation



Top 5 Corporate Issuers*	(%)	Credit Quality	(%)	Duration
Bank of New Zealand	7.69	AAA	13.93	Fund 4.67years vs Benchmark 4.41 years
Local Government Funding Authority	7.59	AA	62.48	
Fonterra Cooperative Group	5.91	A	18.76	Yield Fund (gross) 2.38% vs Benchmark 1.90%
Westpac Banking Corporation	5.25	BBB	4.83	
ANZ Bank New Zealand	5.21			

\*excludes central government

## Market Commentary

The first quarter of 2019 saw strong performance from fixed income assets as interest rates moved much lower in yield. Financial markets were generally more negative in their view of the global economy and their expectations for growth and inflation were reduced. As a result, interest rates have continued to move lower in yield even though they were already at generally low levels. This resulted in surprisingly strong returns from bonds despite the low absolute level of interest rates.

The normal correlation between NZ and US interest rates returned after breaking down last year when the US was increasing their rates. New Zealand markets followed the global trend lower in yield but gained an added boost when the NZ Reserve Bank somewhat surprised markets by shifting to an easing bias. Most market commentators expected there was a higher likelihood that the next move in the cash rate would be lower rather than higher, but expectations were that although economic activity has slowed things aren't that bad and the bank would keep rates steady for some time until the need for a rate cut became clearer. The global outlook is weaker and with little inflationary concerns, a more stimulatory response may be appropriate before the higher expected fiscal spend from the government is able to boost activity. Perhaps the real reason for the easing bias is to lower the value of the New Zealand dollar to help support the export sector.

Across the NZ government bond curve, interest rates finished the month from 18 to 34 basis points lower in yield, and swap rates performed slightly better versus similar maturities of government bonds. Credit holdings were some of the best performers due to their higher running yield and strong demand for reinvestment opportunities following large levels of maturities. The shape of the yield curve has continued to flatten with the spread between the 2 and 10-year swap rate decreasing from 60 to 53 basis points. The government and swap yield curves are now relatively flat with government bonds out to 8 years below the cash rate of 1.75%.

## Fund Commentary

The fund outperformed the Bloomberg NZ Bond Composite index over quarter. Longer duration assets and bank and credit issues added value to the portfolio as longer-term interest rates continued to decline. The increased yield associated with non-government bonds benefited the fund while a modest long duration position added value relative to the composite benchmark. Our strategy is to maintain a higher running yield through quality credit and think there are still some good opportunities to pick up yield through selling short to maturity bonds and investing longer in maturity along the credit curve which has the most slope.

## Key Fund Facts

<b>Distributions</b>		<b>Estimated annual fund charges (incl GST)</b>		
Wholesale fund:	Calendar quarter	Wholesale:	Negotiated outside of unit price	
Retail fund:	Calendar quarter	Retail:	0.74%, refer PDS for more detail	
<b>Hedging</b>		<b>Buy / Sell spread</b>	<b>Strategy size</b>	<b>Strategy Launch</b>
All investments will be in New Zealand dollars		0.00% / 0.00%	\$311.80m	October 2007

## Compliance

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

## Contact Us

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