

Factsheet 30 June 2019

# NIKKO AM NZ CORPORATE BOND STRATEGY

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

## Market Overview

- Global interest rates trended lower as trade tensions reduced growth outlook.
- The NZ Reserve Bank kept the Cash Rate at 1.5%, further reductions are priced in.
- NZ short term and long term interest rates continue to move lower.

## Fund Highlights

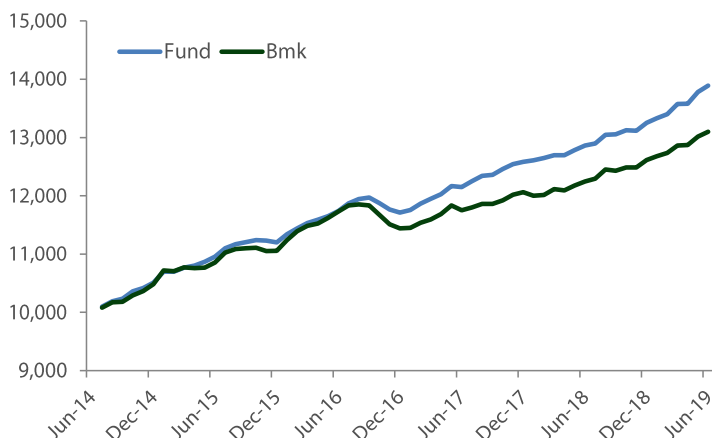
- NZ bonds continued to deliver strong returns as interest rates fell.
- The supply/demand dynamics remain supportive of credit holdings as investors seek yield.
- A higher running yield through holding quality credit continues to benefit the fund.

## Performance

	One month	Three months	One year	Three years (p.a)	Five years (p.a)	Ten years (p.a)
Wholesale <sup>1</sup>	0.78%	2.29%	7.99%	5.77%	6.79%	-
Benchmark <sup>2</sup>	0.64%	1.83%	6.97%	3.75%	5.55%	-
Retail <sup>3</sup>	0.70%	2.08%	7.13%	4.93%	5.90%	6.41%
KiwiSaver <sup>3</sup>	0.75%	2.28%	8.06%			

1. Returns are before tax and before the deduction of fees  
 2. Current benchmark: Bloomberg NZBond Credit0+ 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, \$10,000 invested<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.

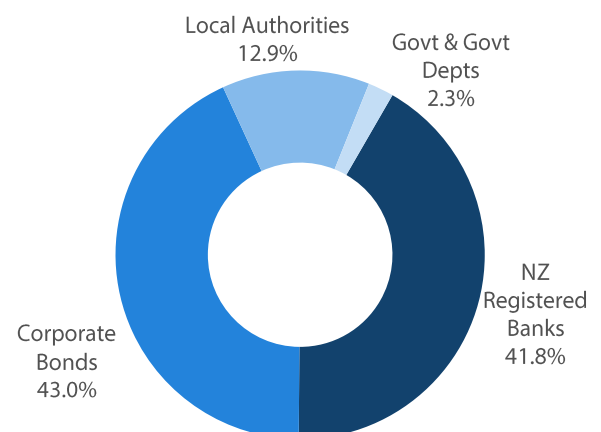
## Overview

The strategy aims to generate 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 0.70% per annum before fees, expenses and taxes over a rolling three year period.

## Asset Allocation



Top 5 Corporate Issuers	%	Credit Quality (% of fund)	%	Duration
ANZ Bank New Zealand	7.71	AAA	2.19	Fund 3.84 years vs Benchmark 3.10 years
Westpac Banking Corporation	6.82	AA	45.33	
Bank of New Zealand	6.11	A	24.93	Yield Fund (gross) 2.58% vs Benchmark 2.17%
Fonterra Cooperative Group	5.68	BBB	27.55	
ASB Bank of New Zealand	5.35			

## Market Commentary

NZ fixed income assets produced strong returns over June as interest rates continued to move lower in yield. The yield curve flattened with a 0.1% reduction in the yield of short-dated NZ government bonds and longer maturities declining by 0.16%. This fall in yields resulted in longer duration bonds out-performing short duration bonds over the month and also for the past year. A similar result was seen in swap yields and in the yields of non-government bond issues.

Global financial conditions remain accommodative and many Central Banks are looking to provide their economies with more stimulus by cutting short term rates further. Federal Reserve Chairman Jerome Powell said the downside risks to the US economy have increased, reinforcing the case amongst policy makers for somewhat lower rates. Cross-currents have re-emerged, with apparent progress on trade turning to greater uncertainty with incoming data raising concerns about the strength of the global economy. The Reserve Bank is also sounding words of warning. In the Official Cash Rate (OCR) commentary the bank stated that “given the weaker global economic outlook and risk of ongoing subdued domestic growth, a lower OCR may be needed over time to continue to meet our objectives”. In the same release they also revealed they continue to be concerned about the downside risks around the employment and inflation outlook.

The market is already pricing in rate cuts in New Zealand. We think this is correct however do question if lower rates are going to have the stimulatory effect hoped for by the RBNZ. We do note that proposals to significantly increase capital levels required to be held by NZ banks will make banks stronger but will likely have economic consequences. Perhaps further rate cuts will help minimise the negative impact on the economy if lending rates increase and credit is more difficult to obtain in areas such as the dairy industry as banks adjust their business operations to maintain an acceptable return for their shareholders. This uncertainty and concern is showing up in weak business confidence levels which further reinforces the view that more rate cuts are likely.

## Fund Commentary

The fund outperformed the Bloomberg NZBond Credit benchmark over the month of June. Credit holdings added value as did the recent addition of some new bond issues. The increased yield associated with these bonds continues to benefit the fund while a long duration position relative to the benchmark contributed positively to the month’s performance.

We expect further modest declines in interest rates and our focus will be on maintaining a higher portfolio yield through buying quality non-government bond issues. We think there are still some good opportunities to pick up yield through selling short term bonds and investing in longer term non-government bonds.

## Key Fund Facts

<b>Distributions</b>	<b>Estimated annual fund charges (incl GST)</b>		
Wholesale fund: calendar quarter	Wholesale fund: negotiated outside of unit price		
Retail fund: calendar quarter	Retail fund: 0.80%, refer PDS for more details		
KiwiSaver fund: does not distribute	KiwiSaver fund: 0.82%, refer PDS for more details. Fee waived until 30/9/2019		
<b>Hedging</b>	<b>Buy / Sell spread:</b>	<b>Strategy size</b>	<b>Strategy Launch</b>
All investments will be in New Zealand dollars	0.0% / 0.0%	\$261.2m	July 2009

## Compliance

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

## Contact Us

[www.nikkoam.co.nz](http://www.nikkoam.co.nz) | [nzenquiries@nikkoam.com](mailto:nzenquiries@nikkoam.com)

This document is issued by Nikko Asset Management New Zealand Limited (Company No. 606057, FSP No. FSP22562), the investment manager of the Nikko AM NZ Investment Scheme, the Nikko AM NZ Wholesale Investment Scheme and the Nikko AM KiwiSaver Scheme. This information is for the use of researchers, financial advisers and wholesale clients. This material has been prepared without taking into account a potential investor’s objectives, financial situation or needs and is not intended to constitute personal financial advice, and must not be relied on as such. Recipients of this document, who are not wholesale investors (in accordance with Schedule 1, Clause 3 Financial Markets Conduct Act 2013), or their duly appointed agent, should consult an Authorised Financial Adviser and the relevant Product Disclosure Statement. Past performance is not a guarantee of future performance. While we believe the information contained in this presentation is correct at the date of presentation, no warranty of accuracy or reliability is given and no responsibility is accepted for errors or omissions including where provided by a third party. For full details on the fund, please refer to our Product Disclosure Statement on [nikkoam.co.nz](http://nikkoam.co.nz).