

Factsheet 31 August 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

- NZ bond markets produced strong returns over August due to large falls in NZ interest rates.
- There were some significant moves lower in bond rates globally with negative news about slowing economic growth and increasing uncertainty around global trade dominating the direction of financial markets.
- The NZ Reserve Bank expressed their concerns around potential headwinds to growth, surprising the market with a 50 basis point cut in the cash rate taking it to a record low of 1%.

## Fund Highlights

- NZ bonds delivered very strong returns as yields fell.
- The supply/demand dynamics remain supportive of credit holdings as investors seek yield.
- A higher portfolio yield through holding quality credit continues to benefit the fund.

## Performance

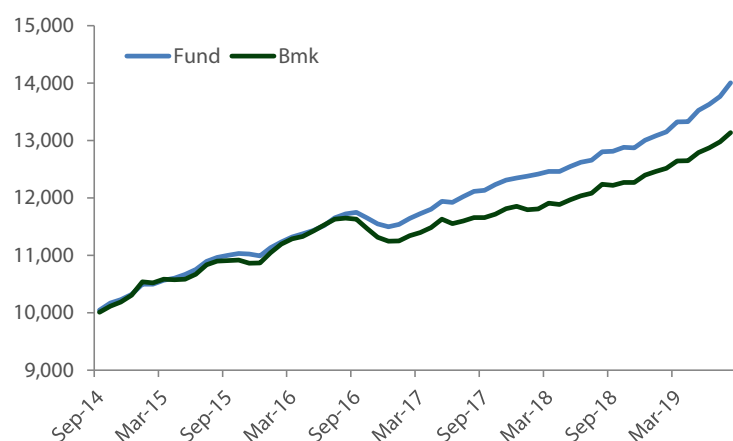
	One month	Three months	One year	Three years (p.a)	Five years (p.a)	Ten years (p.a)
Wholesale <sup>1</sup>	1.72%	3.53%	9.37%	6.10%	6.97%	-
Benchmark <sup>2</sup>	1.25%	2.70%	7.38%	4.10%	5.61%	5.64%
Retail <sup>3</sup>	1.64%	3.31%	8.50%	5.28%	6.09%	6.51%
KiwiSaver <sup>3</sup>	1.70%	3.50%	9.32%			

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

2. Current benchmark: Bloomberg NZBond Credit 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, \$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.

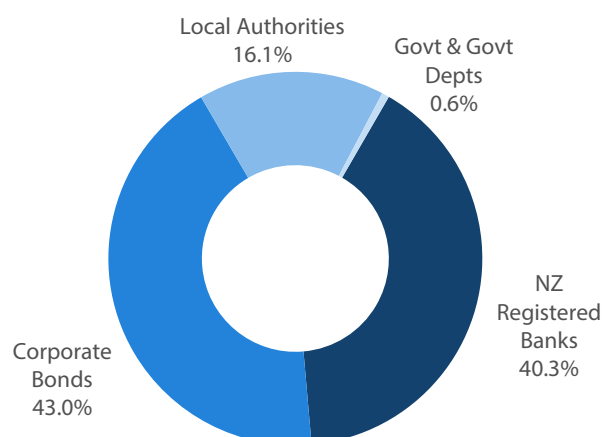
## Overview

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	7.73	AAA	2.01	Fund 4.10 years vs Benchmark 3.08 years
Bank of New Zealand	7.26	AA	47.46	
NZ Local Government Funding Agency	6.45	A	23.21	<b>Yield</b>
ASB Bank of New Zealand	5.71	BBB	27.32	Fund (gross) 2.08% vs Benchmark 1.66%
Fonterra Co-operative Group	5.41			

## Market Commentary

NZ bond markets produced strong returns over August due to large falls in NZ interest rates. There were some significant moves lower in bond rates globally with negative news about slowing economic growth and increasing uncertainty around global trade dominating the direction of financial markets. During the month the US 10-year bond rate plummeted 50 basis points (bps) in 2 weeks and volatility spiked on geopolitical news. There is no doubt we are in unusual times with interest rates at record lows, and this has extended the search for yield across equities and other asset classes.

NZ government bond rates finished the month from 22 to 44 bps lower in yield across the curve with longer maturities falling more than shorter bonds. Swap rates outperformed similar maturities of government bonds falling an additional 2 to 5 bps reducing their spread above government bonds. There is now little slope or yield pickup along the government and swap yield curve apart from investing in credit. Credit was generally the best performing sector over the month, benefiting returns through a higher running yield and some credit margin contraction. Locally the NZ Reserve Bank expressed its concerns around potential head winds to growth and took an activist approach surprising the market with a 50 basis point cut in the cash rate taking it to a record low of 1%. The RBNZ believes that if it acts earlier in providing stimulus this will hopefully encourage an upswing in spending and investment and will likely make any potential future dip in growth shallower. It also noted that monetary policy need friends and they would like the government to bring forward and increase spending to provide additional support to the economy. Although growth has slowed expectations are that NZ GDP will still be around the 2 to 2.5% range which isn't bad. While growth is below potential and inflation low, the bank appears to see little risk from adding stimulus to the economy sooner rather than later, we however expect the bank may pause before cutting interest rates further. We think the prospect of NZ having negative interest rates remains a low probability at this stage.

## Fund Commentary

The fund outperformed the Bloomberg NZBond Credit benchmark over the month. A longer duration positioning and higher yield including margin contraction on credit holdings added value to the portfolio as longer term interest rates continued to decline.

While interest rates have declined significantly, 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 opportunities to pick up yield through selling short to maturity bonds and investing longer in maturity along the credit curve.

## Key Fund Facts

Distributions	Estimated annual fund charges (incl GST)		
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	
Hedging	Buy / Sell spread:	Strategy size	Strategy Launch
All investments will be in New Zealand dollars	0.0% / 0.0%	\$280.2m	July 2009

## Compliance

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

## Contact Us

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