

Factsheet 30 September 2019

NIKKO AM NZ BOND STRATEGY

Assets are held in the Nikko AM Wholesale NZ Bond Fund. The Nikko AM NZ Bond Fund (retail) invest in units in the wholesale fund, which the commentary refers to.

Market Overview

- Over September the performance from bonds was muted by rising interest rates and returns from NZ bonds were generally low to negative.
- The month started as a reversal of August, and volatility increased as there were large movements higher in US interest rates on optimism that US/China trade negotiations were improving.
- Locally the NZ Reserve Bank left rates unchanged and said they would wait to see if more stimulus is necessary.

Fund Highlights

- The fund underperformed the Bloomberg NZ Bond Composite benchmark over the month
- Credit margins widened on supply/demand dynamics.
- A higher running yield through holding quality credit should continue to benefit the fund.

Performance

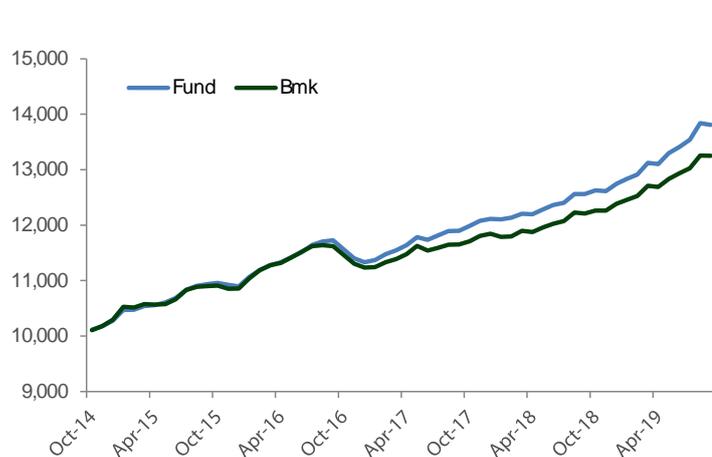
	One month	Three months	One year	Three years (p.a)	Five years (p.a)	Ten years (p.a)
Wholesale ¹	-0.22%	2.97%	9.93%	5.59%	6.67%	6.98%
Benchmark ²	-0.04%	2.45%	8.55%	4.47%	5.79%	5.68%
Retail ³	-0.26%	2.81%	9.15%	4.83%	5.82%	

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, \$10,000 invested^{1&2}



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.

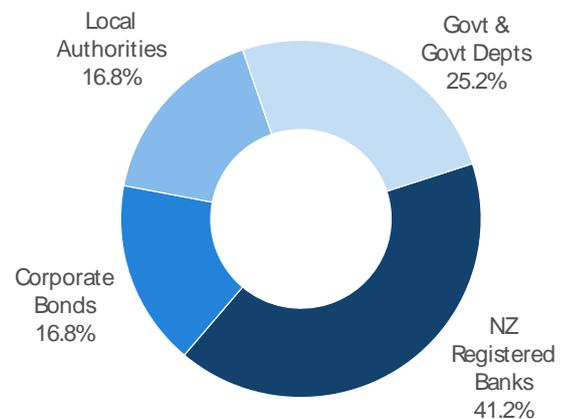
Overview

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
Local Government Funding Agency	11.19	AAA	12.53	Fund 5.06 years vs Benchmark 4.46 years
Bank of New Zealand	8.06	AA	65.16	
ANZ Bank New Zealand	5.86	A	17.88	Yield
Westpac Banking Corporation	5.60	BBB	4.43	Fund (gross) 1.63% vs Benchmark 1.21%
Fonterra Co-Operative Group	5.40			

*excludes central government

Market Commentary

Over September the performance from bonds was muted by rising interest rates and returns from NZ bonds were generally low to negative. The month started as a reversal of August, and volatility increased as there were large movements higher in US interest rates on optimism that US-China trade negotiations were improving. Also some of the spike higher in rates was perhaps exacerbated by an “unwinding” as interest rates had over done the move lower in yield the previous month. The NZ 10-year bond moved approximately 35 basis points (bps) higher in yield following the direction of the US 10-year bond which spiked 40bps. However by mid-month the interest rate sell-off had lost momentum following the Saudi oil attack and renewed disappointment over trade negotiations and yields subsequently retreated to close only marginally higher than where they started the month. Locally the NZ Reserve Bank left rates unchanged and said they would wait to see if more stimulus is necessary. The bank would like to encourage more spending and investment although this appears difficult as consumer and business confidence has continued to decline. While growth is below potential and inflation is low the bank appears to see little risk from adding stimulus to the economy and we may see further rate cuts if economic data deteriorates further. This will likely keep NZ interest rates low for some time.

Over the month funds with exposure to longer maturity bonds and credit underperformed. NZ government bond rates finished the month from 1 to 5bps higher in yield across the curve with longer maturities rising more than shorter bonds. Swap rates were the best performing sector outperforming similar maturities of government bonds as they reduced their spread to government bonds by 1 to 6bps. NZ credit spreads widened by approximately 3-10bps as supply soaked up demand and there was selling to buy new bond issues. On a positive note we opportunistically added some bonds to the fund at higher yields.

Fund Commentary

The fund underperformed the Bloomberg NZ Bond Composite benchmark over the month. A longer duration positioning, and some of the fund’s longer maturity bonds, including a widening of credit margins detracted value as NZ interest rates moved higher in yield. We will focus on maintaining a higher portfolio yield through buying quality non-government bond issues. We think there continues to be opportunities to pick up yield through selling short to maturity bonds and investing longer in maturity along the credit curve. We will focus on this area to add value to the fund over the months ahead.

Key Fund Facts

Distributions		Estimated annual fund charges (incl GST)		
Wholesale fund:	Calendar quarter	Wholesale:	Negotiated outside of unit price	
Retail fund:	Calendar quarter	Retail:	0.74%, 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%	\$349.85m	October 2007

Compliance

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

Contact Us

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