

# 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

- NZ short-term interest rates moved higher in yield and long-term rates were lower.
- Market sentiment has become less negative with some positive economic data emerging.
- The pricing in of further cuts to the Official Cash Rate (OCR) has been reduced.

## Fund Highlights

- Returns have been muted due to the move higher in interest rates.
- Credit margin dynamics look supportive with a shortage of supply.
- A higher portfolio yield created by holding quality credit should continue to benefit the fund.

## Performance

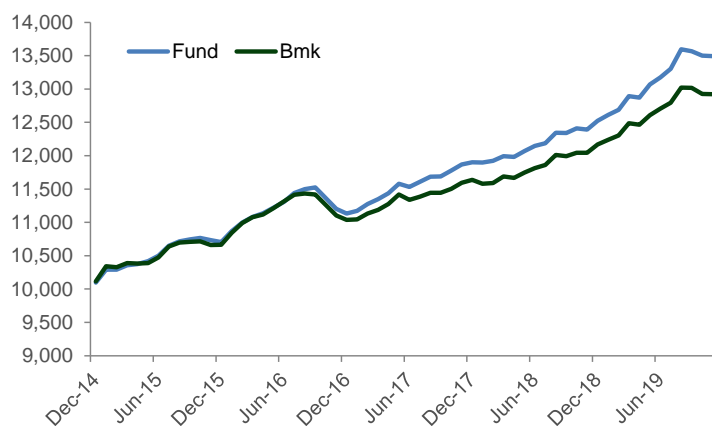
	One month	Three months	One year	Three years (p.a)	Five years (p.a)	Ten years (p.a)
Wholesale <sup>1</sup>	-0.06%	-0.76%	8.89%	6.40%	6.18%	6.78%
Benchmark <sup>2</sup>	-0.02%	-0.78%	7.29%	5.18%	5.26%	5.49%
Retail <sup>3</sup>	-0.12%	-0.94%	8.08%	5.62%	5.34%	

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<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.

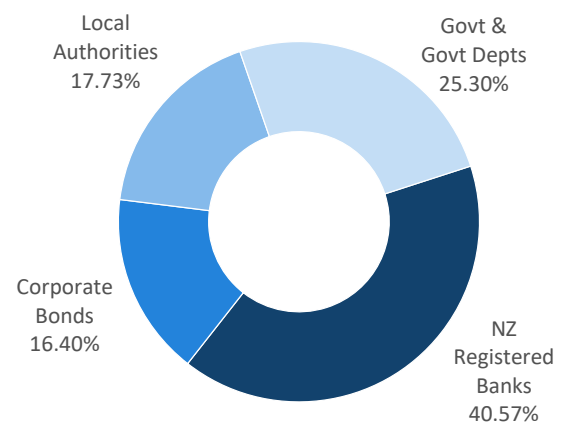
## Overview

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
NZ Local Govt. Fund Agency	11.44%	AAA	12.32%	Fund 5.02 years vs Benchmark 4.48 years
Westpac New Zealand Ltd	7.13%	AA	60.70%	
Bank Of New Zealand	6.75%	A	22.62%	<b>Yield</b>
Fonterra Cooperative Group	5.57%	BBB	4.36%	Fund (gross) 1.79% vs Benchmark 1.41%
ANZ Bank New Zealand Ltd	5.13%			

\*excludes central government

## Market Commentary

The returns from NZ bonds were muted as interest rates moved higher in yield and the negative contribution from duration negated the positive contribution from yield. Market sentiment and data has generally improved. A large shift higher in interest rates occurred following the surprise Reserve Bank announcement that they would leave the cash rate unchanged. By month end longer term interest rates had recovered from their spike higher and followed the direction of the US 10-year bond lower in yield. Short-term interest rates however remained higher in yield as the market unwound the pricing of further cuts to the cash rate.

Interest rate markets have remained reasonably volatile over the past few months. We would expect short bond maturities to remain more anchored by expectations for low and stable cash rates. Longer term bond rates will likely continue to be more influenced by the direction of offshore bond markets. Over the month longer maturity bonds performed better than short maturities. The 2021 NZ Government Bond finished the month 11 basis points (bps) higher in yield, whereas maturities 10 years and longer were lower in yield by around 3 bps by month end. The best place to be positioned on the yield curve was in bonds 10 years plus in maturity. From a duration perspective funds with longer duration positions and more exposure to the direction of interest rates generally underperformed over the month. In a low yield environment the direction of interest rates and subsequent gain or loss from duration tends to more heavily dominate the return in comparison to other return drivers such as yield.

On a sector basis NZ government inflation linked bonds performed well versus nominal government bonds. Swap maturities underperformed, widening in spread relative to similar maturities of government bonds. Credit issues performed reasonably well as supply has remained limited. We continue to remain positive on holding credit due to the higher yield especially since the government and swap curves remain very flat, and credit margins should remain stable with limited new supply.

## Fund Commentary

Fund performance was close to benchmark over the month. Positives included the outperformance of inflation linked NZ government bonds and higher yield from credit. Detractors of value were the longer duration positioning, and yield curve positioning. We will focus 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 to maturity bonds and investing longer in maturity along the credit curve.

## 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%	\$354.6m	October 2007

## Compliance

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

## Contact Us

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