

Factsheet 31 January 2020

# NIKKO AM NZ CORPORATE BOND STRATEGY

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

## Market Overview

- The returns from NZ bonds were strong over the month as interest rates moved much lower in yield.
- Market sentiment was negative on concerns about coronavirus.
- In contrast, on a positive note economic data has generally been improving with monetary and fiscal stimulus adding to the prospects for a pick-up in activity for 2020.

## Fund Highlights

- Returns from bonds were strong as yields moved lower.
- Credit margin dynamics look supportive with a shortage of supply.
- A higher running yield through holding quality credit should continue to benefit the fund.

## Performance

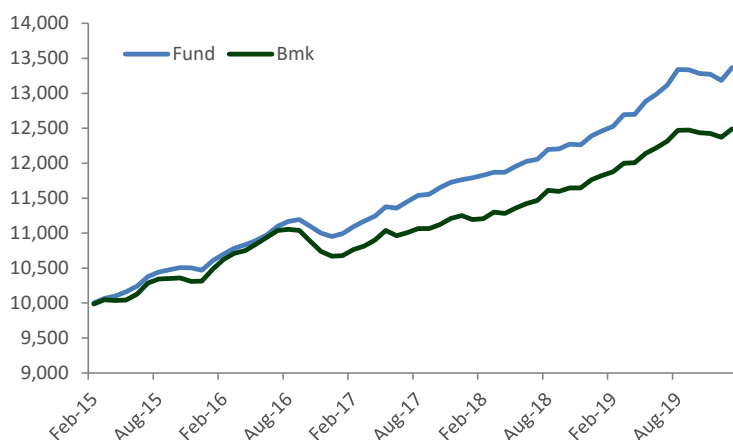
	One month	Three months	One year	Three years (p.a)	Five years (p.a)	Ten years (p.a)
Wholesale <sup>1</sup>	1.37%	0.62%	7.25%	6.74%	5.98%	-
Benchmark <sup>2</sup>	0.94%	0.40%	5.60%	5.36%	4.54%	5.38%
Retail <sup>3</sup>	1.30%	0.42%	6.41%	5.91%	5.11%	6.13%
KiwiSaver <sup>3</sup>	1.29%	0.39%	6.95%			

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.

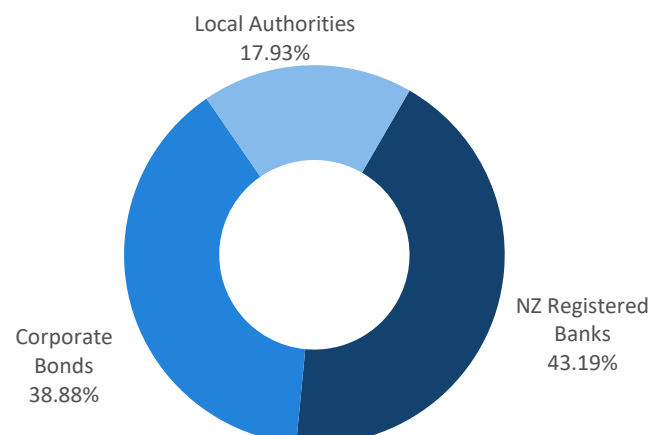
## Overview

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
NZ Local Govt. Fund Agency	7.78	AAA	1.74	Fund 3.97 years vs Benchmark 3.00 years
Bank Of New Zealand	7.09	AA	47.12	
ANZ Bank New Zealand Ltd	6.76	A	25.27	<b>Yield</b>
Westpac New Zealand Ltd	6.11	BBB	25.87	Fund (gross) 2.21% vs Benchmark 1.84%
ASB Bank Limited	5.51			

## Market Commentary

The returns from NZ bonds were strong over the month as interest rates moved much lower in yield. The positive contribution from duration was the primary driver of returns as NZ yields unwound the move higher in yields that occurred at year end 2019. It would be fair to say the markets focus is currently on the negative. Concern over the coronavirus in China and what impact that could have on economic activity dominated market sentiment, resulting in lower bond yields by the end of January. There remains a considerable amount of uncertainty about what the impact of the virus will be, and the market typically isn't very good at handicapping events with open ended risks.

In contrast, on a positive note economic data has generally been improving with monetary and fiscal stimulus adding to the prospects for a pick-up in activity for 2020. Both NZ GDP and inflation data were stronger than the markets and RBNZ's expectations. Annual inflation is now at 1.9% and near the midpoint of the target band and house prices look to be rising. Additionally sentiment factors had been improving with Brexit and US/China trade tensions relaxing, and in NZ business and consumer confidence have also tentatively improved.

Late last year market expectations were generally for the RBNZ to be leave rates on hold and yield curves to steepen as the economy improved.

Over the month the NZ 10-year government bond fell by 34 basis points (bps) to 1.30% and the longer maturity 2037 bond by 43 bps to 1.67%, the US 10-year bond fell by 41 bps to 1.51%. Shorter duration bonds underperformed longer maturity bonds as they had smaller moves lower in yield and the impact of falling yields is also less for shorter duration assets. On a sector basis both inflation linked and nominal Government bonds performed well. The swap curve flattened with the spread between 2 and 10-year rates declining from 52 to 31 bps. Overall Swap rates performed in line with similar maturities of government bonds. Corporate bonds continued to perform well as margins remain supported by a lack of supply and continuing demand. Bond Portfolios that had a longer duration had a good start to the year recovering from the sell-off in December. Interest rate markets have remained reasonably volatile over the past months, although as expected short bond maturities have remained more anchored by expectations for cash rates to stay low. Longer term bond rates will likely continue to be more influenced by the direction of offshore bonds. 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.

## Fund Commentary

The fund outperformed the Bloomberg NZ Bond Credit benchmark over the month. The longer duration positioning, and yield curve positioning were the main contributors to outperformance. We will continue to focus on maintaining a higher portfolio yield through buying quality non-government bond issues. We expect credit to remain well supported with a shortage of supply to market.

## 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

Hedging	Buy / Sell spread:	Strategy size	Strategy Launch
All investments will be in New Zealand dollars	0.0% / 0.0%	\$298.4m	July 2009

## Compliance

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

## Contact Us

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