

Factsheet 30 April 2020

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

- Bond and equity prices recovered strongly as buyers returned to the market - bargain hunting assets which had become cheaper following the March sell-off.
- NZ interest rates fell to record lows, supported by the Reserve Bank bond buying programs.
- Central banks and Governments have taken unprecedented actions to try and reduce the negative economic impacts of lock-downs, however there remains considerable uncertainty about the shape of the recovery.

Fund Highlights

- NZ Bond fund returns were strongly positive for the month as interest moved lower in yield.
- Credit holdings recovered significantly, recovering around 80% of their lost value from the expansion in credit margins through March.
- The funds have benefited from buying cheaper assets at distressed prices and extending duration through late March and April.

Performance

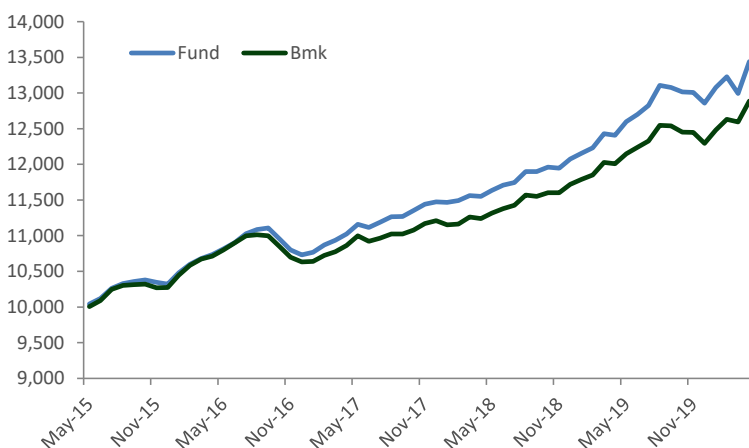
	One month	Three months	One year	Three years (p.a)	Five years (p.a)	Ten years (p.a)
Wholesale ¹	3.42%	2.76%	8.30%	6.83%	6.09%	6.83%
Benchmark ²	2.30%	3.24%	7.32%	5.86%	5.20%	5.63%
Retail ³	3.10%	2.32%	7.24%	5.96%	5.22%	

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.

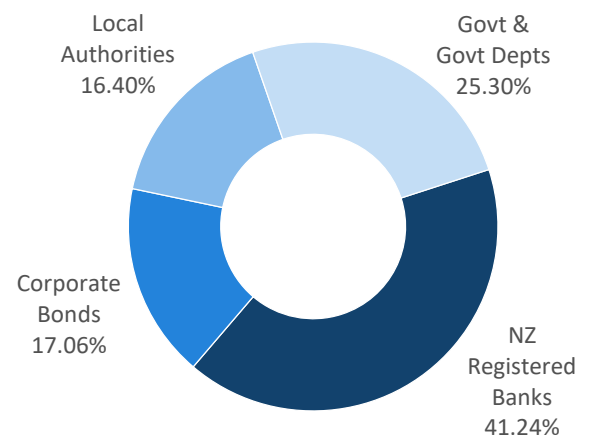
Overview

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
NZ Local Govt. Fund Agency	11.51%	AAA	11.12%	Fund 5.27 years vs Benchmark 4.71 years
Bank Of New Zealand	7.13%	AA	61.52%	
Westpac New Zealand	6.25%	A	23.11%	Yield Fund (gross) 1.32% vs Benchmark 0.75%
Fonterra Cooperative Group	5.54%	BBB	4.25%	
ANZ Bank New Zealand	5.28%			

*excludes central government

Market Commentary

Central banks and governments have effectively “gone all in” with their efforts to provide support to the financial system and economies. This has had a positive benefit and over the month volatility in financial markets calmed as investors saw value in buying assets at cheaper levels following the sell-off in March.

NZ interest rates moved a lot lower in yield to record lows, supported by the Reserve Bank bond buying programs. Credit holdings also recovered around 80% of their lost value from their margin expansion in March.

There was a reasonably large difference in performance across the various sectors of the NZ bond market as credit and government bonds outperformed swap. This clawed back a lot of the previous outperformance of swap versus other sectors from March. From a yield curve perspective the government curve flattened, and the swap curve steepened in shape. NZ government bond rates performed strongly as their yields fell, the 1-year government bond fell by 11 basis points, the 5-year, and 10-year finished approximately 40 bps lower. The 2037 longest maturity government bond was 55 bps lower, falls of these magnitudes ensured a strong outperformance for longer maturity bonds. In comparison swap rates underperformed with swaps rates out to 5-years around 30 bps lower in yield, and the 10-year swap rate only 15 bps lower.

Credit also performed strongly as margins narrowed significantly, for example 5-year senior bank debt in NZ was marked at a credit margin of around 85 bps pre COVID-19 and traded in excess of 200 bps during March, by end of April margins were back around 110 bps. The long maturity LGFA and Housing NZ bonds have performed very well. Further supportive of the credit market over the medium term, supply has gone “from feast to famine” with a much reduced expectation for new issuance from banks in particular. The system is awash with short-term liquidity with the RBNZ buying bonds back from the market, demand for new lending is likely to remain slow, and banks able to borrow money very cheaply (at 0.25%) under the Term Lending facility from the RBNZ.

Financial markets have shown substantial improvement, but we remain cautious and believe that the best strategy is to focus on positioning the funds to outperform over the medium to long term.

Fund Commentary

The fund outperformed its benchmark over the month. The main positive contributions were the recovery in credit with credit margins reversing approximately 80% of their March expansion. The longer duration position relative to benchmark and yield curve positioning as interest rates fell to record lows also benefitted the fund. The longer maturity LGFA, and Housing NZ bonds performed well as yields fell to record lows. We added quality credit names at cheaper levels and extended duration which benefitted returns. We will continue to focus on maintaining a higher portfolio yield through buying quality non-government bond issues. It is likely future returns will be supported by a higher yield, and some further improvement in credit margins over the medium to long term.

Key Fund Facts

Distributions

Wholesale fund:	Calendar quarter
Retail fund:	Calendar quarter

Estimated annual fund charges (incl. GST)

Wholesale:	Negotiated outside of unit price
Retail:	0.74%, refer PDS for more detail

Hedging

All investments will be in New Zealand dollars

Buy / Sell spread

[Click to view](#)

Strategy size

\$353.06m

Strategy Launch

October 2007

Compliance

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

Contact Us

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