

Factsheet 30 April 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

- 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

- The fund returns were 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.

## Performance

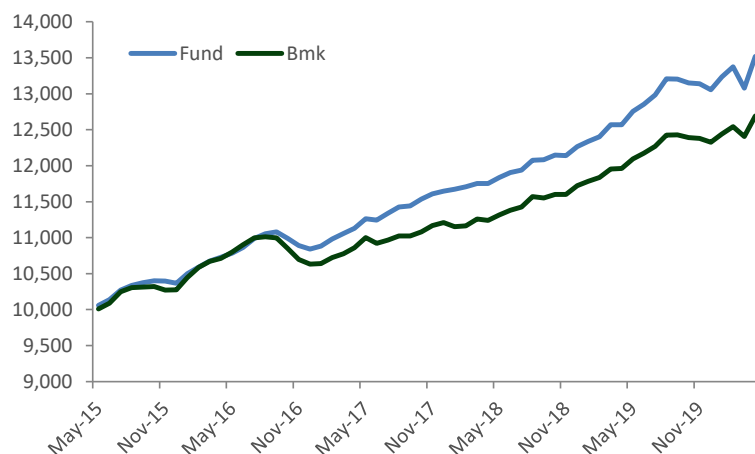
	One month	Three months	One year	Three years (p.a)	Five years (p.a)	Ten years (p.a)
Wholesale <sup>1</sup>	3.38%	2.15%	7.54%	6.69%	6.21%	7.02%
Benchmark <sup>2</sup>	2.30%	2.01%	6.10%	5.33%	4.88%	5.47%
Retail <sup>3</sup>	2.80%	1.45%	6.16%	5.68%	5.25%	6.06%
KiwiSaver <sup>3</sup>	2.78%	1.44%	6.48%			

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.

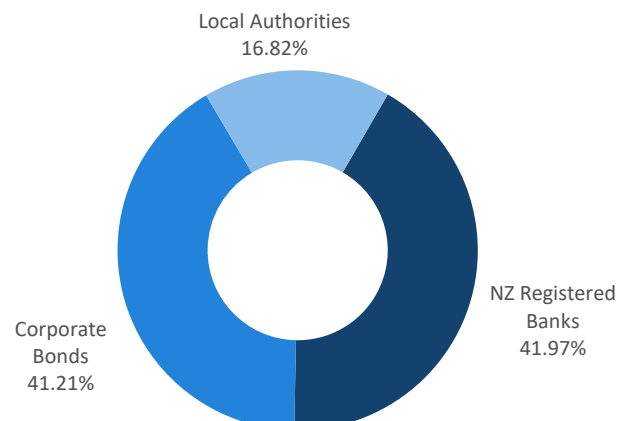
## Overview

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	8.09	AAA	1.69	Fund 4.04 years vs Benchmark 2.90 years
Westpac New Zealand Ltd	6.57	AA	43.34	
Fonterra Cooperative Group	5.98	A	27.49	<b>Yield</b>
Bank of New Zealand	5.90	BBB	27.48	Fund (gross) 1.90% vs Benchmark 1.28%
ANZ Bank New Zealand Ltd	5.30			

## 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 recovery of credit margins, longer duration positioning, and yield curve positioning were all contributors to outperformance as yields fell to record lows. Credit in general outperformed similar maturities of governments and swap as margins contracted significantly. Contributing to the fund’s return were the addition of quality credit at cheaper levels and an extended duration. We will continue to focus on maintaining a higher portfolio yield through buying quality non-government bond issues. The credit quality of the fund remains strong. Over the medium term it is likely returns will be supported by a higher yield, and some further improvement in credit margins.

### Key Fund Facts

#### Distributions

Wholesale fund: calendar quarter  
Retail fund: calendar quarter  
KiwiSaver fund: does not distribute

#### Estimated annual fund charges (incl. GST)

Wholesale fund: negotiated outside of unit price  
Retail fund: 0.80%, refer PDS for more details  
KiwiSaver fund: 0.82%, refer PDS for more details

#### Hedging

All investments will be in New Zealand dollars

#### Buy / Sell spread:

[Click to view](#)

#### Strategy size

\$294.17m

#### Strategy Launch

July 2009

## Compliance

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

## Contact Us

[www.nikkoam.co.nz](http://www.nikkoam.co.nz) | [nzenquiries@nikkoam.com](mailto:nzenquiries@nikkoam.com)

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