

Factsheet 31 July 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

- NZ credit remains supported by demand /supply dynamics.
- The main driver of positive returns over the month was the move lower in longer term interest rates into month end.
- The actions and language of central banks and governments continues to have a strong influence on bond markets.

Fund Highlights

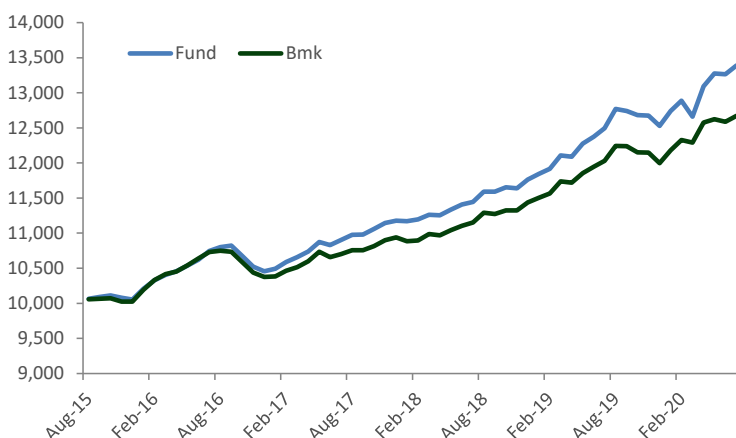
- Fund returns were strong over the month as interest rates moved lower in yield.
- Credit holdings of NZ issuers have continued to perform well with supply limited.
- The main positive contributor to returns was the longer duration positioning, supported by strong performance from credit holdings and higher fund yield.

Performance

	One month	Three months	One year	Three years (p.a)	Five years (p.a)	Ten years (p.a)
Wholesale ¹	0.92%	2.25%	7.15%	7.09%	6.01%	6.65%
Benchmark ²	0.67%	0.75%	5.32%	5.78%	4.85%	5.34%
Retail ³	0.85%	2.30%	6.35%	6.29%	5.20%	

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.



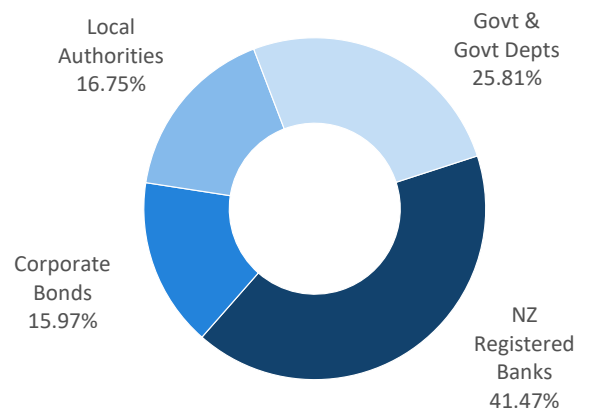
Overview

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. Funding Agency	12.51%	AAA	14.42%	Fund 5.94 years vs Benchmark 4.98 years
Bank of New Zealand	6.74%	AA	58.03%	
Westpac New Zealand	5.99%	A	23.47%	Yield Fund (gross) 1.01% vs Benchmark 0.62%
Fonterra Cooperative Group	5.32%	BBB	2.55%	
Kiwibank New Zealand	4.15%	BB	1.53%	

*excludes central government

Market Commentary

The main driver of positive returns over the month was the move lower in longer term interest rates into month end. Previously the prospect of new long maturity bond issuance (the NZ government 2041, and LGFA 2037 bonds) had been weighing on the market and NZ interest rates moved higher in yield early July on expectation that new issuance levels would need to be at similar levels to Australian interest rates to make the issue attractive to offshore investors. Subsequently there was good demand for the new long maturity bonds and they performed strongly as yields fell into month end. For example, the NZ government 2041 bond was issued at a yield of 1.64% mid-July and finished approximately 25 basis points lower in yield, returning 3.5% for the month.

Over the course of the month we extended duration, buying longer maturity bonds, and participating in the new bond issuance where appropriate for the funds, while rates were higher and the NZ yield curve steep in shape at the long end. The funds have been fully invested with the move lower in interest rates, and also benefited from the ongoing strong performance of credit and a higher fund yield which has supported performance.

On a sector basis NZ government bonds performed better than the swap and credit sectors over the month. The 1-year government bond increased by 2 basis points, the 5-year fell 8 basis points, and 10-year finished 16 basis points lower. While government bonds moved lower in yield swap rates didn't move lower to the same degree, and swap margins finished around 6 to 12 basis points lower in yield than similar maturities of government bonds. Credit remained a strong performer, for example 5-year senior bank debt in NZ was marked at a credit margin of around 75 basis points in June, and at the end of July margins were around 60-65 basis points with strong secondary demand. The financial system remains awash with short term liquidity, and demand for bonds continues to dominate supply. What has changed is there have been a couple of new corporate bond issues, and some further small more bond deals in the pipeline. At this stage we don't expect this supply is likely to impact credit spreads.

Fund Commentary

The fund returned 0.9%, and outperformed its benchmark by 25 basis points over the month. The main positive contributor to returns was the longer duration positioning, supported by strong performance from credit holdings and higher fund yield. We extended duration and added some long maturity bonds when yields were higher with a steep yield curve. Credit margins have performed strongly with supply very limited. We will continue to focus on maintaining a higher portfolio yield through buying quality non-government bond issues.

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: 0.70%, refer PDS for more detail

Hedging

All investments will be in New Zealand dollars

Buy / Sell spread

[Click to view](#)

Strategy size

\$370.9m

Strategy Launch

October 2007

Compliance

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

Contact Us

www.nikkoam.co.nz | nzenquiries@nikkoam.com

This document is issued by Nikko Asset Management New Zealand Limited (Company No. 606057, FSP No. FSP22562), the investment manager of the Nikko AM NZ Investment Scheme, the Nikko AM NZ Wholesale Investment Scheme and the Nikko AM KiwiSaver Scheme. This information is for the use of researchers, financial advisers and wholesale clients. This material has been prepared without taking into account a potential investor's objectives, financial situation or needs and is not intended to constitute personal financial advice, and must not be relied on as such. Recipients of this document, who are not wholesale investors (in accordance with Schedule 1, Clause 3 Financial Markets Conduct Act 2013), or their duly appointed agent, should consult an Authorised Financial Adviser and the relevant Product Disclosure Statement. Past performance is not a guarantee of future performance. While we believe the information contained in this presentation is correct at the date of presentation, no warranty of accuracy or reliability is given and no responsibility is accepted for errors or omissions including where provided by a third party. For full details on the retail and KiwiSaver funds, please refer to the relevant Product Disclosure Statement on nikkoam.co.nz.