

Factsheet 31 July 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

- 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

- The fund returned 0.67% for the month. Returns were low for the month as interest rates moved higher 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.

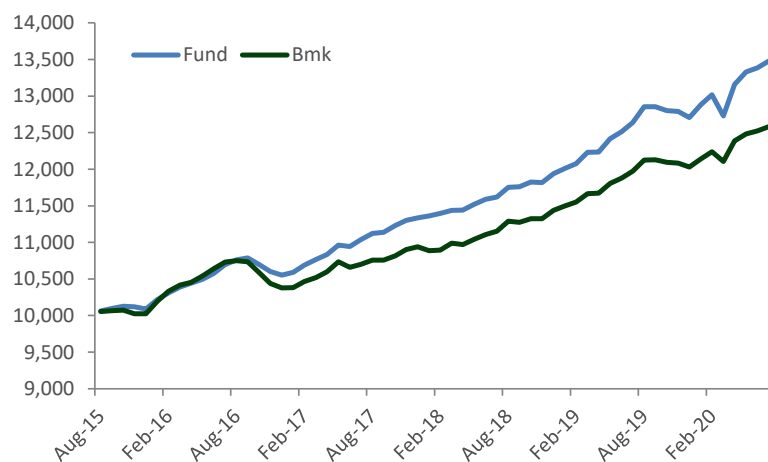
## Performance

	One month	Three months	One year	Three years (p.a)	Five years (p.a)	Ten years (p.a)
Wholesale <sup>1</sup>	0.67%	2.43%	6.65%	6.88%	6.15%	6.92%
Benchmark <sup>2</sup>	0.46%	1.59%	5.08%	5.54%	4.70%	5.27%
Retail <sup>3</sup>	0.61%	2.74%	5.82%	6.05%	5.30%	6.02%
KiwiSaver <sup>3</sup>	0.61%	2.73%	5.93%			

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).



## 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.

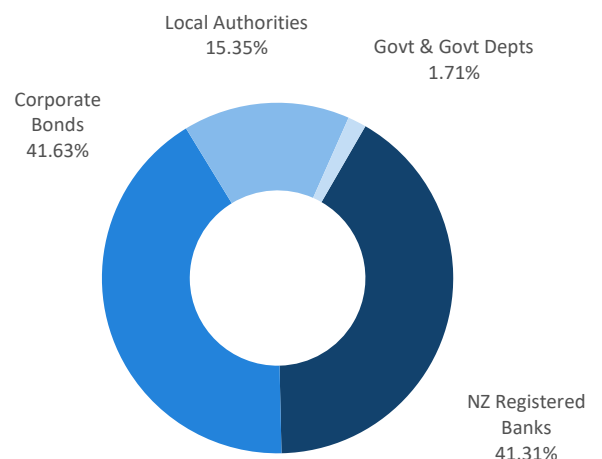
## Overview

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 Funding Agency	7.76	AAA	3.16	Fund 4.16 years vs Benchmark 3.20 years
Westpac New Zealand Ltd	6.01	AA	41.17	
Fonterra Cooperative Group	5.70	A	28.04	<b>Yield</b>
Bank of New Zealand	5.53	BBB	26.23	Fund (gross) 1.37% vs Benchmark 0.90%
ANZ Bank	5.11	BB	1.40	

## 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 outperformed its benchmark by 21 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. 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  
 KiwiSaver fund: does not distribute

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

Wholesale fund: negotiated outside of unit price  
 Retail fund: 0.79%, refer PDS for more details  
 KiwiSaver fund: 0.80%, refer PDS for more details

### Hedging

All investments will be in New Zealand dollars

### Buy / Sell spread:

[Click to view](#)

### Strategy size

\$313.4m

### Strategy Launch

July 2009

## Compliance

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

## Contact Us

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