Factsheet 30 November 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 interest rates moved higher in yield over the month.
- Credit margins have remained well supported with new issuance of bonds readily absorbed.
- The actions and language of Central banks and Governments continues to have a strong influence on bond markets.

Fund Highlights

- Fund returns were negative over the month as interest rates increased in yield.
- NZ credit has generally performed well, and margins narrowed further with supply limited.
- The fund underperformed benchmark by a modest amount due to rising rates.

Performance

	One month	Three months	One year	Three years (p.a)	Five years (p.a)	Ten years (p.a)
Wholesale[1]	-1.63%	-0.79%	6.42%	6.56%	5.99%	6.64%
Benchmark[2]	-1.47%	-0.88%	4.18%	5.10%	4.77%	5.26%
Retail[3]	-1.70%	-0.96%	5.64%	5.78%	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).

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.

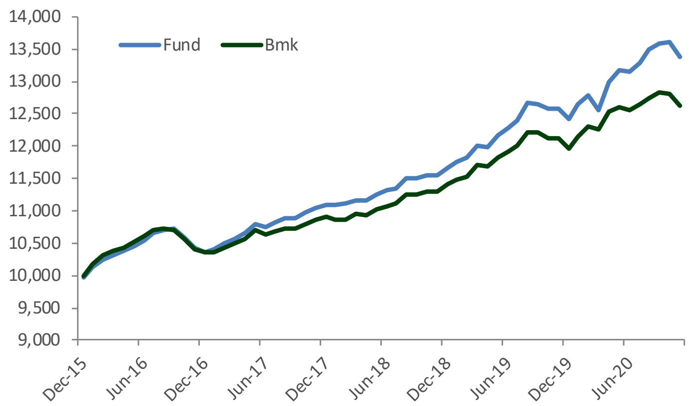
Overview

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.

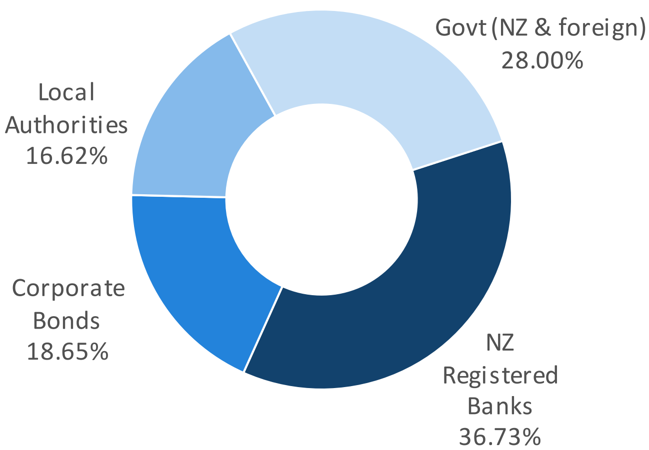
Objective

The fund aims to outperform the benchmark return by 0.60% per annum before fees, expenses and taxes over a rolling three year period.

Five Year Cumulative Performance, $10,000 invested[1&2]



Asset Allocation



Top 5 Corporate Issuers*	(%)
NZ Local Govt. Funding Agency	11.08
Kommunalbanken	8.15
Kiwibank	5.20
Housing New Zealand	5.15
Fonterra Cooperative Group	4.89

*excludes central government

Credit Quality	(%)
AAA	12.89
AA	59.03
A	23.88
BBB	2.77
BB	1.43

Duration
Fund 6.28 years vs Benchmark 5.35 years

Yield
Fund (gross) 1.03% vs Benchmark 0.62%

Market Commentary

The returns from NZ bonds were negative in November as interest rates moved higher in yield, breaking the strong run of returns enjoyed since April this year. Relative performance to benchmark was moderately negative primarily due to the longer duration position, and exposure to interest rate movements. Some of the negative impact from rising rates was mitigated by sectors such as credit and inflation linked bonds that performed reasonably well. On a positive note, with yields now higher the prospects for future returns from bonds look better.

The rise in yields in November brought an abrupt end to the trend of falling interest rates. The extent of the move higher was likely exacerbated by long maturity market positioning. Over the past months NZ interest rates had remained supported by the view that further rate cuts would continue to support bonds at close to record lows in yield. The change in market expectations and sharp unwind higher in yield was driven by a combination of factors. NZ economic data has mostly been stronger than expectations, with sectors such as housing, employment, and exports surprisingly robust, but this had so far been largely ignored until the catalyst of a "successful "vaccine grabbed headlines around the world. Further upward pressure was added with the government's focus on house price inflation and a step back in rate cut rhetoric from the RBNZ at their November meeting seeing a knee jerk reaction higher in rates.

At month end the 3-year government bond finished 22 basis points higher, the 5-year 29 basis points, and 10 year finished 30 basis points higher in yield, although rates finished higher, they were around 15 basis points lower than their intra month peak. On a sector basis swaps and credit outperformed government bonds, and shorter maturity bonds that have less price sensitivity to rising interest rates outperformed longer maturity bonds. We believe that the best strategy is to focus on positioning the funds to outperform over the medium to long term. Positioning the fund with a higher yield than benchmark and buying quality credit should continue to support returns.

Fund Commentary

The fund underperformed the Bloomberg NZ Bond Composite benchmark over the month. The main driver of negative returns was the rise higher in interest rates and the fund's longer duration positioning. Credit holdings and inflation linked bonds continued to perform reasonably well in comparison to swaps and government bonds.

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

$402.3

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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