

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

14,000

13,500

13.000

12,500

12.000 11.500 11.000 10,500

10,000

9,500

9,000

Decils

Jun 26

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Junil

Decili

|                        | One    | Three  | One   | Three       | Five        | Ten         |
|------------------------|--------|--------|-------|-------------|-------------|-------------|
|                        | month  | months | year  | years (p.a) | years (p.a) | years (p.a) |
| Wholesale <sup>1</sup> | -1.63% | -0.79% | 6.42% | 6.56%       | 5.99%       | 6.64%       |
| Benchmark <sup>2</sup> | -1.47% | -0.88% | 4.18% | 5.10%       | 4.77%       | 5.26%       |
| Retail <sup>3</sup>    | -1.70% | -0.96% | 5.64% | 5.78%       | 5.20%       |             |

1. Returns are before tax and before the deduction of fees.

Fund

Bmk

Current benchmark: Bloomberg NZBond Composite 0+ Yr Index. No tax or fees.
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>



### Fergus McDonald,

Head of Bonds and Currency

Fergus is responsible for the investment of the Bond, Cash and Currency mandates. Fergus has been



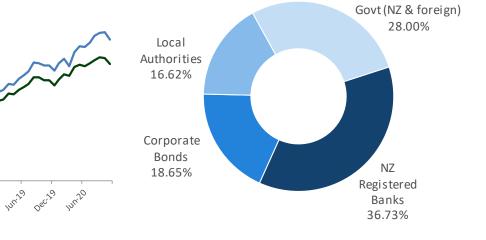
actively involved in the NZ financial markets since 1981. The portfolio management team for the domestic fixed income funds includes Ian Bellew, Fixed Income Manager and Matthew Johnson, Fixed Income Manager.

### **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

Decila

Jun-18

### NIKKO AM NZ BOND STRATEGY

| Top 5 Corporate Issuers*      | (%)   | Credit Quality | (%)   | Duration  |
|-------------------------------|-------|----------------|-------|-----------|
| NZ Local Govt. Funding Agency | 11.08 | AAA            | 12.89 | Fund 6.28 |
| Kommunalbanken                | 8.15  | AA             | 59.03 |           |
| Kiwibank                      | 5.20  | A              | 23.88 | Yield     |
| Housing New Zealand           | 5.15  | BBB            | 2.77  | Fund (gro |
| Fonterra Cooperative Group    | 4.89  | BB             | 1.43  |           |

|   | Duration                                |
|---|---|
|   | Fund 6.28 years vs Benchmark 5.35 years |
|   |   |
|   | Yield                                   |
|   | Fund (gross) 1.03% vs Benchmark 0.62%   |
| 1 |   |

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Nikko Asset Management

\*excludes central government

### 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

### **Fund Commentary**

returns.

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                 |                              | Estimated annual fund charges (incl. GST) |                                  |                          |                                 |  |  |
| Wholesale fund:               | Calendar quarter             | Wholesale:                                | Negotiated outside of unit price |                          |                                 |  |  |
| Retail fund:                  | Calendar quarter             | Retail:                                   | 0.70%, refer PDS for more detail |                          |                                 |  |  |
| Hedging<br>All investments wi | ll be in New Zealand dollars | Buy / Sell sp<br>Click to view            |                                  | Strategy size<br>\$402.3 | Strategy Launch<br>October 2007 |  |  |

### Compliance

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

# **Contact Us**

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