

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

- The NZ yield curve steepened over the month as interest rates moved higher.
- Credit margins have remained well supported due to demand / supply dynamics.
- Financial markets have been relatively stable over the holiday period.

Fund Highlights

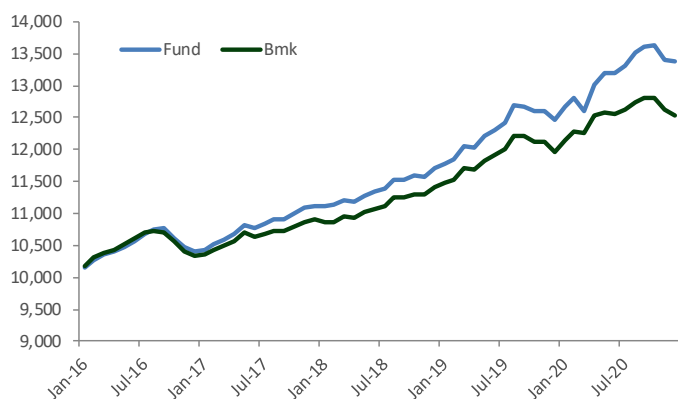
- Fund returns were negative over the month as interest rates moved higher in yield. The fund performed well in comparison to benchmark despite rising rates and negative returns.
- NZ credit holdings continued to perform well as did the fund's exposure to inflation linked bonds.

Performance

	One month	Three months	One year	Three years (p.a)	Five years (p.a)	Ten years (p.a)
Wholesale ¹	-0.29%	-1.78%	7.33%	6.36%	5.99%	6.60%
Benchmark ²	-0.65%	-2.18%	4.80%	4.75%	4.63%	5.19%
Retail ³	-0.34%	-1.95%	6.56%	5.59%	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.

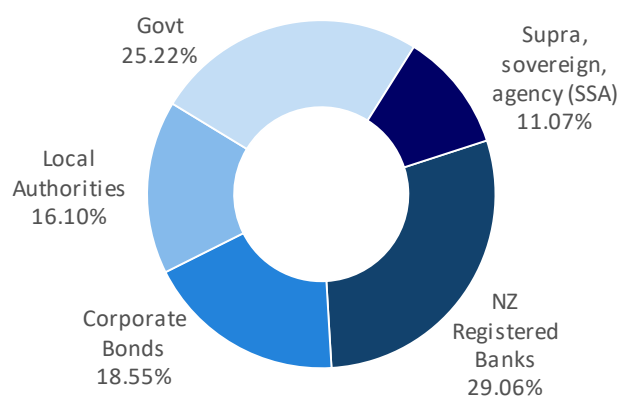
Overview

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	11.03	AAA	11.90	Fund 6.00 years vs Benchmark 5.27 years
Kommunalbanken	8.13	AA	59.78	
Kiwibank	5.21	A	24.25	Yield
Housing New Zealand	5.15	BBB	2.65	Fund (gross) 1.04% vs Benchmark 0.74%
Fonterra Cooperative Group	4.87	BB	1.42	

*excludes central government

Market Commentary

The returns from NZ bonds continued to be negative for December as interest rates moved higher in yield. Over the month the yield curve steepened in shape as longer maturities had larger moves higher in yield than shorter maturity bonds.

The best performers were the credit holdings of the fund which performed well relative to NZ government bonds. Swaps suffered with increases in yield causing mark-to-market losses. At month end, the 3-year government bond finished 10 basis points higher, the 10-year finished 15 basis points higher in yield, and the 2041 bond was 28 basis points higher in yield. Funds with longer duration positioning than benchmark had a larger negative contribution from duration, but on the positive side investing in longer maturity bonds with a steep yield curve helps build a higher yield relative to benchmark. This should help add value over time, and with yields now higher, the prospects for future returns from bonds look better. Government bonds linked to CPI inflation also did well as economic activity may boost inflation closer to the Reserve Bank’s 2% goal.

We believe that the best strategy is to focus on positioning the funds to outperform over the medium to long term. The fund’s relative duration position has shortened and is moderately longer than benchmark. Positioning the fund with a higher yield than benchmark and buying quality credit should continue to support returns.

Looking forward, the NZ cash rate and shorter maturity bonds are likely to remain at low levels for some time, however longer-term rates are more difficult to predict. The current market consensus is that yield curves will likely continue to steepen as the world recovers from the negative impacts of the virus as vaccines get distributed, and the large amounts of stimulus support economic recovery. In counterbalance to expectations for higher interest rates, we have already had a reasonable move higher and steeper in NZ yield curves, and market positioning is vulnerable to some disappointment if the recovery is delayed. Globally, equity markets won’t like rising yields which will temper how high rates can go. With a “more predictable” US president and absence of potential trade wars and other volatility, financial markets may hopefully be more stable through 2021.

Fund Commentary

The fund outperformed the Bloomberg NZ Bond Composite benchmark over the month albeit returns were negative. 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 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

\$399.6m

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.