

# 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

- 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 main driver of negative returns was the rise higher in interest rates and the fund's longer duration positioning.
- NZ credit holdings continued to perform well.

## Performance

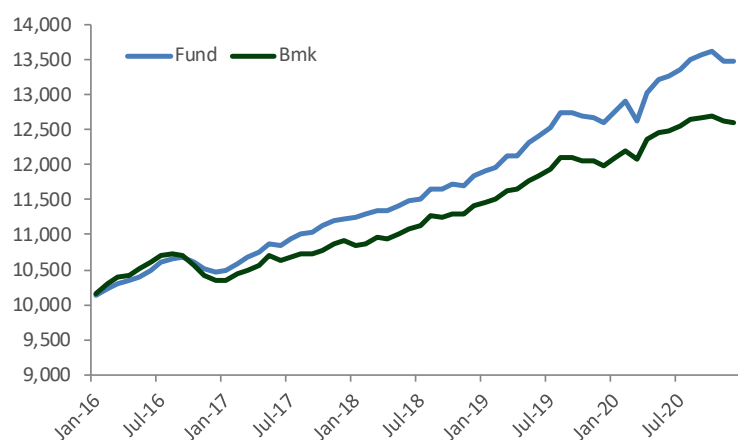
	One month	Three months	One year	Three years (p.a)	Five years (p.a)	Ten years (p.a)
Wholesale <sup>1</sup>	-0.11%	-0.76%	6.99%	6.24%	6.14%	6.78%
Benchmark <sup>2</sup>	-0.12%	-0.59%	5.11%	4.94%	4.75%	5.25%
Retail <sup>3</sup>	-0.17%	-0.96%	6.15%	5.43%	5.30%	5.88%
KiwiSaver <sup>3</sup>	-0.17%	-0.96%	6.12%			

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).

## Five Year Cumulative Performance, \$10,000 invested<sup>1,2</sup>



## 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.

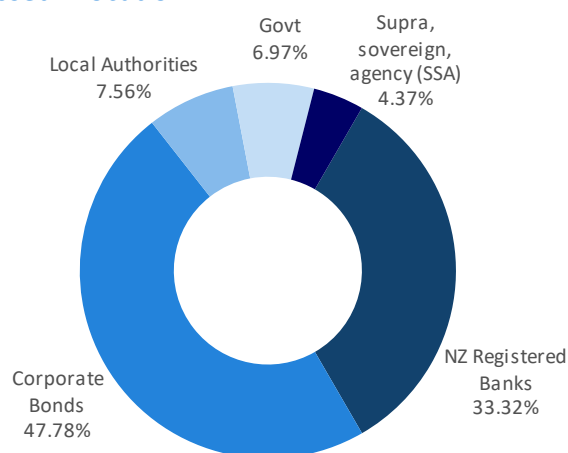
## Overview

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	6.97	AAA	3.54	Fund 4.07 years vs Benchmark 3.23 years
Kiwibank	5.94	AA	45.14	
Westpac NZ Ltd	5.61	A	24.23	<b>Yield</b>
Fonterra Cooperative Group	5.03	BBB	25.83	Fund (gross) 1.41% vs Benchmark 0.90%
ASB Bank Ltd	4.75	BB	1.26	

## 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.

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 main driver of negative returns was the rise higher in interest rates and the fund’s longer duration positioning. Credit holdings continued to perform well in comparison to swaps and government bonds. 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

\$347.5m

#### Strategy Launch

July 2009

## Compliance

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

## Contact Us

[www.nikkoam.co.nz](http://www.nikkoam.co.nz) | [nzenquiries@nikkoam.com](mailto:nzenquiries@nikkoam.com)

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