

# 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 Bonds markets settled after a volatile start to the year.
- The NZ yield curve moved lower from February's highs in interest rates.
- NZ credit margins have been relatively stable.

## Fund Highlights

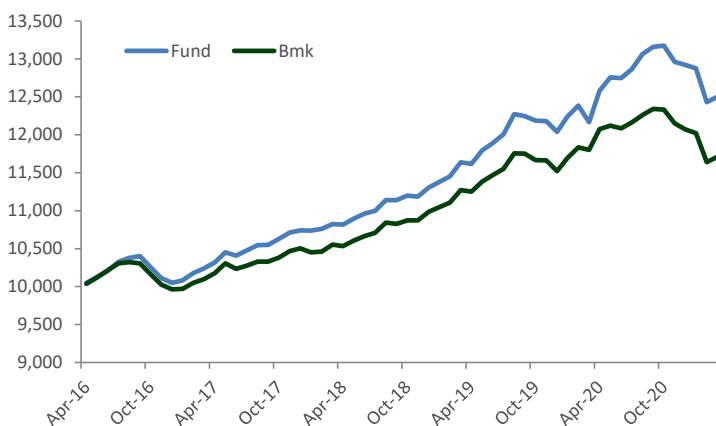
- NZ bond fund returns were positive over the month as interest rates moved lower in yield.
- The fund is positioned close to benchmark duration.
- The supply and demand dynamics still appear supportive of credit and maintaining a higher fund yield.

## Performance

	One month	Three months	One year	Three years (p.a)	Five years (p.a)	Ten years (p.a)
Wholesale <sup>1</sup>	0.56%	-3.27%	2.74%	4.92%	4.56%	5.95%
Benchmark <sup>2</sup>	0.60%	-2.99%	-0.78%	3.54%	3.21%	4.64%
Retail <sup>3</sup>	0.52%	-3.44%	2.02%	4.17%	3.80%	

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<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.

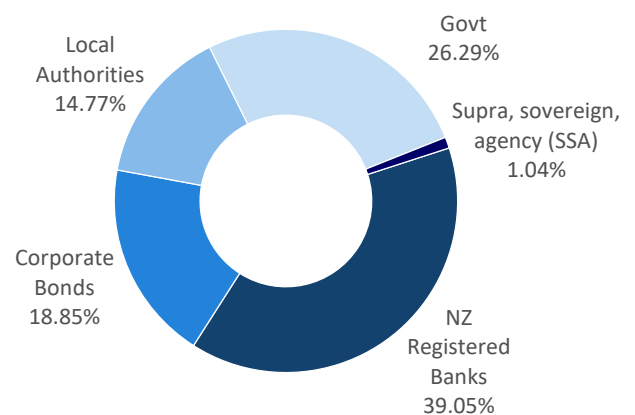
## Overview

The 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	9.59	AAA	51.84	Fund 5.54 years vs Benchmark 4.99 years
Kommunalbanken AS	8.44	AA	22.67	
Westpac New Zealand Ltd	5.64	A	20.58	Yield Fund (gross) 1.35% vs Benchmark 1.17%
KiwiBank	5.50	BBB	3.39	
China Construction Bank	5.38	BB	1.52	

\*excludes central government

## Market Commentary

The returns from NZ bonds were positive for the month as NZ interest rates moved lower in yield retracing some of their move higher from February. Over the last few months NZ bond markets have struggled to produce positive returns as interest rates have marched higher from record lows achieved in October last year. Pleasingly, in March NZ interest rates settled in volatility and moved lower in yield, this contrasted with other markets such as the US which continued their trend higher in yield.

The catalyst for the retracement lower in NZ government bond yields was likely a combination of local factors. First the NZ Q4 GDP was weaker than expected. Second, the detail around the next NZ government bond syndication was released and this was supportive of bonds relative to market expectations with a shorter maturity bond and a later issuance date announced. Third, the government’s announcement of tax changes to address house prices arguably had the largest impact as expectations for growth and future interest rate increases were pared back. NZ government bond rates moved 20-30 basis points lower in yield following the above, however by month end rates had begun to drift higher again following offshore moves.

Government bonds were the better performing sector over the month. At month end the 2-year NZ government bond finished 9 basis points lower in yield, the 5-year bond 17 bps lower, 10-year 11 bps, and longest bond the 2041 maturity 19 bps lower in yield. Swap rates underperformed with long term swap rates little changed, and the shape of the swap yield curve remained steep with a spread of 1.51% between the 2-year and 10-year swap rates. Credit holdings continued to perform well, and conditions remained supportive with only two new bond deals coming to market at relatively tight margins and receiving good support.

## Fund Commentary

The fund had a positive month and performed in line with the Bloomberg NZ Bond Composite benchmark over the month. Duration, and a higher fund yield were helpful as interest rates moved lower in yield over the month.

We will likely have less interest rate exposure until we have a higher conviction around the direction of rates, credit holdings should remain reasonably well supported, and a higher yield should benefit returns over time. There will also likely be opportunities to add value with interest rates moving in a reasonably large range.

## 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: 0.65%, refer PDS for more detail

### Hedging

All investments will be in New Zealand dollars

### Buy / Sell spread

[Click to view](#)

### Strategy size

\$370.6m

### Strategy Launch

October 2007

## Compliance

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

## Contact Us

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