

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

- 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

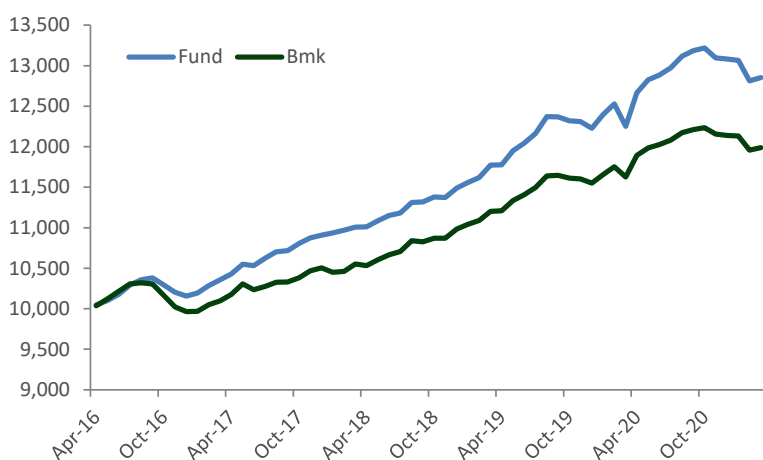
	One month	Three months	One year	Three years (p.a)	Five years (p.a)	Ten years (p.a)
Wholesale ¹	0.31%	-1.76%	4.92%	5.30%	5.15%	6.30%
Benchmark ²	0.25%	-1.26%	3.11%	4.35%	3.69%	4.88%
Retail ³	0.25%	-1.96%	4.10%	4.48%	4.31%	5.40%
KiwiSaver ³	0.23%	-1.99%	4.04%	4.96%		

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^{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.

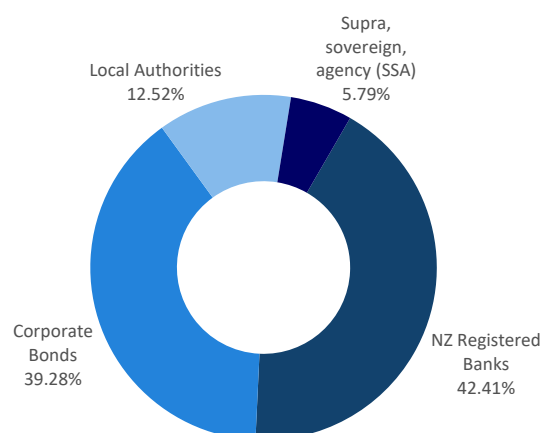
Overview

The 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
Westpac New Zealand Ltd	8.93%	AAA	11.01	Fund 3.49 years vs Benchmark 3.13 years
Bank of New Zealand	7.11%	AA	39.78	
China Construction Bank NZ	5.44%	A	24.80	Yield Fund (gross) 1.50% vs Benchmark 1.21%
Kiwibank Ltd	5.07%	BBB	23.38	
Fonterra Cooperative	5.07%	BB	1.03	

Market Commentary

The returns from NZ bonds were positive for the month, as NZ interest rates moved lower in yield retracing some of their moves higher in 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 were likely a combination of local factors. First, NZ Q4 GDP was weaker than expected. Second, the details around the next NZ government bond syndication were 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 to 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, little changed with long term swap rates 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 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 return over the quarter was negative as during February bond yields trended higher and steeper yield curves accelerated as bond markets became volatile on thin transactional volumes. The size and pace of moves were exacerbated by a lack of buying interest and adding to the pain, the Australian and US bond markets also moved higher in yield later in February pushing NZ higher in yield again. Over March, the fund posted a positive return - the main driver of returns was the fund’s duration positioning and higher yield as interest rates moved lower in yield.

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
KiwiSaver fund: does not distribute

Estimated annual fund charges (incl. GST)

Wholesale fund: negotiated outside of unit price
Retail fund: 0.70%, 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

\$425.2m

Strategy Launch

July 2009

Compliance

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

Contact Us

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