

Factsheet 30 April 2021

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

- Bond markets had a positive month as yields moved lower.
- The NZ bond market appears range bound, absent a catalyst for direction.
- There has been some NZ credit issuance, and this has been well supported.

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	0.65%	-2.30%	-0.01%	5.17%	4.60%	5.94%
Benchmark ²	0.69%	-1.93%	-2.35%	3.84%	3.27%	4.60%
Retail ³	0.58%	-2.47%	-0.47%	4.41%	3.83%	

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).

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.



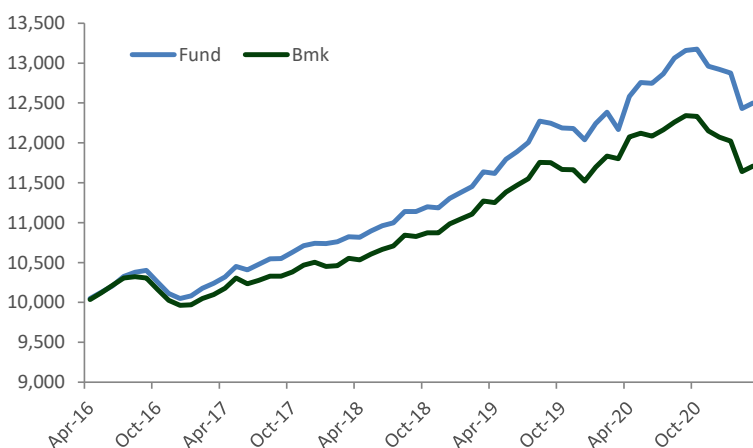
Overview

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.

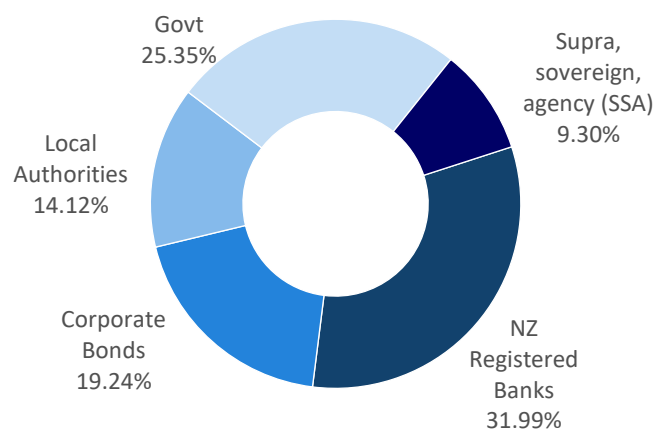
Objective

The fund aims to outperform the benchmark return by 0.60% per annum before fees, expenses and taxes over a rolling three year period.

Five Year Cumulative Performance, \$10,000 invested^{1&2}



Asset Allocation



Top 5 Corporate Issuers*	(%)	Credit Quality	(%)	Duration
NZ Local Govt Funding Agency	8.5	AAA	51.7	Fund 5.52 years vs Benchmark 5.04 years
Kommunalbanken AS	8.3	AA	22.4	
Housing New Zealand	7.1	A	21.4	Yield Fund (gross) 1.38% vs Benchmark 1.15%
China Construct NZ	5.3	BBB	3.0	
Kiwibank Ltd	5.0	BB	1.5	

*excludes central government

Market Commentary

NZ bonds produced a positive return for April as yields moved lower; duration positioning and a higher fund yield were helpful contributors. Over the month of April bond markets finished lower in yield and traded in a modest range. NZ bond markets have had a couple of better months, although data has been strong, and the reflation trade continues to support risk appetite in other sectors. Bond markets appear a little unsure of direction and have become more comfortable around the current level of interest rates given that a lot of good news had already been priced in with the move higher in yields earlier this year. Bonds may have also been supported by some rebalancing and reinvestment flows with investors closing short positions. Several of the NZ bond benchmarks that local managers use will increase in duration at month end.

Locally, NZ CPI for Q1 2021 was a strong number at 0.8% and core inflation measures close to 2%, but not strong enough to upset expectations. The NZIER’s quarterly survey of business opinion reinforced the message of a supply-constrained economy. Offshore the US 10-year bond spent most of the month drifting lower in yield despite stronger data. Recent Central bank updates have seen them hold their ground on policy outlooks with no hurry to raise interest rates despite some upgrade to economic assessments. The RBNZ has already substantially tapered weekly its bond buying programme which is now around \$350m, close to the weekly issuance of NZ government bonds. Counterbalancing the above the government doesn’t need to necessarily issue as much debt as previously forecast.

Government bonds were the better performing sector over the month. At month end the 2-year NZ government bond finished 3 basis points lower in yield, the 5-year bond 10 bps lower, 10-year 17 bps, and longest bond the 2041 maturity 18 bps lower in yield. Swap rates also had a reasonable month slightly lagging the rally in governments, the shape of the swap yield curve flattened to a spread of 1.37% between the 2- and 10-year swap rates. The fund’s credit holdings continued to perform well, and conditions remained supportive with the new bond deals coming to market 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 positioning and a higher fund yield were helpful as interest rates moved lower in yield over the month. The fund held a lower weight to government bonds than the benchmark was a negative from a sector perspective as government bonds performed strongly.

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 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

\$382.1m

Strategy Launch

October 2007

Compliance

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

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