

# 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 had a negative month as yields moved higher.
- The NZ bond market closed towards the top of the recent interest rate range.
- There has been some NZ credit issuance, and this has been well supported.

## Fund Highlights

- NZ Bond fund returns were negative over the month as interest rates moved higher in yield.
- The fund moved closer 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>	-0.63%	0.57%	-2.00%	4.69%	4.30%	5.72%
Benchmark <sup>2</sup>	-0.71%	0.57%	-3.40%	3.35%	2.96%	4.37%
Retail <sup>3</sup>	-0.68%	0.42%	-2.67%	3.94%	3.55%	4.88%

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.

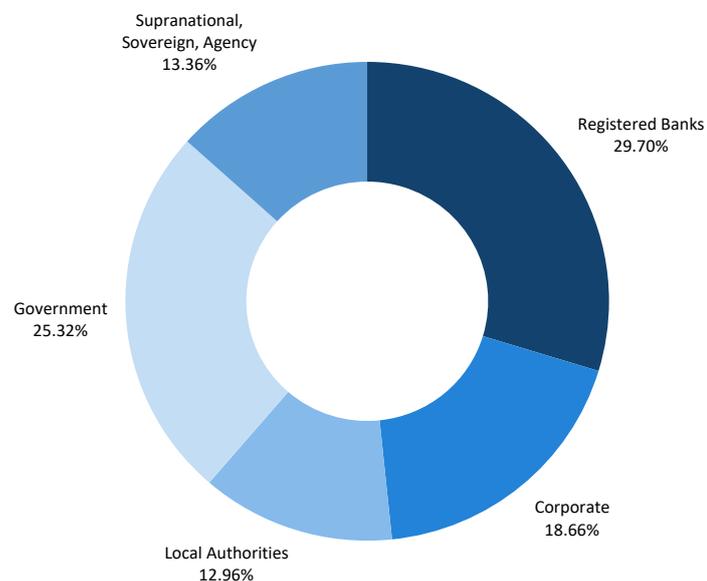
## Overview

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
Kommunalbanken AS	8.1	AAA	51.3	Fund 5.43 years vs Benchmark 5.41 years
New Zealand Local Govt Funding Agency	7.4	AA	20.2	
Housing New Zealand Ltd	5.9	A	23.9	<b>Yield to Maturity</b>
China Construction Bank NZ Ltd	5.3	BBB	2.9	Fund (gross) 1.53% vs Benchmark 1.25%
Kiwibank Ltd	4.9	BB	1.5	

\*excludes central government

## Market Commentary

Over the month of May returns from bonds were negative, the move higher in interest rates was the main driver of absolute returns. On a sector basis, NZ government bonds were generally better performers than swap as swap margins expanded relative to similar maturities of governments. Continuing the reflation, thematic NZ Inflation linked government bonds outperformed nominal government bonds. Credit margins remained reasonably stable.

The NZ Bond market underperformed offshore markets over the month. The US 10-year bond finished the month 4 basis points lower in yield whereas the NZ 10-year bond finished 15 basis points higher and, traded at the top end of its recent range. The budget announcement of a greater supply of government bonds in the near term, a 10-year syndication in mid-June and a 30-year bond before year end likely weighed on the market. Additionally, the NZ Reserve Bank MPS update was generally more hawkish than market expectations with their projections signalling rate hikes are on the horizon. The NZ economy has arguably been running ahead of other developed economies. The spread of COVID and associated lockdowns was largely contained in NZ, and as a result the economy has already had a strong rebound. At this stage it looks likely NZ may be the first to start rate normalization ahead of other Central banks. If correct this will put upward pressure the front of the yield curve (shorter maturities).

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. NZ bonds have become “cheaper” in comparison to offshore and there will likely be opportunities to add value with interest rates moving in a range.

## Fund Commentary

The fund had a negative return, but marginally outperformed the Bloomberg NZ Bond Composite benchmark over the month. From a relative return perspective, interest rate moves had a small impact as the funds were positioned close to benchmark duration over the month. Inflation linked bonds and a higher fund yield were helpful, as interest rates moved higher in yield over the month. The fund held a lower weight to government bonds than the benchmark, which was a negative from a sector perspective as government bonds outperformed swap.

## 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

\$382.9m

### Strategy Launch

October 2007

## Compliance

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

## Contact Us

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