

Factsheet 31 May 2021

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

## Fund Highlights

- The fund is positioned 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>	-0.40%	0.33%	0.23%	5.06%	4.94%	6.14%
Benchmark <sup>2</sup>	-0.39%	0.23%	0.01%	4.17%	3.44%	4.61%
Retail <sup>3</sup>	-0.46%	0.15%	-0.54%	4.24%	4.12%	5.25%
KiwiSaver <sup>3</sup>	-0.46%	0.12%	-0.58%	4.61%		

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.

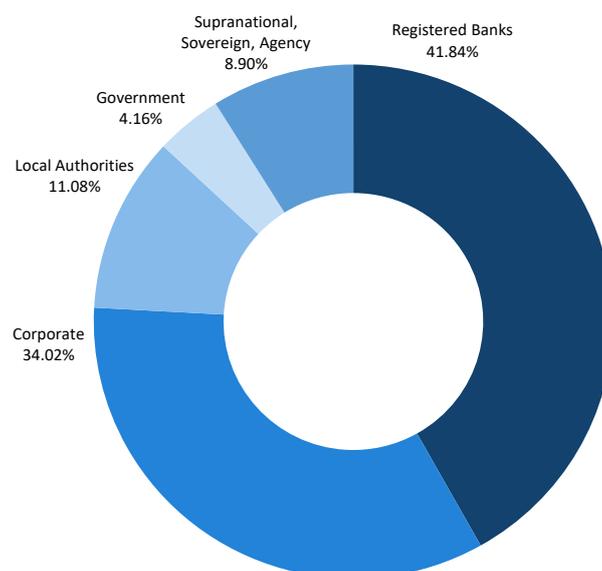
## Overview

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
Bank of New Zealand	8.6	AAA	17.4	Fund 3.37 years vs Benchmark 3.42 years
ASB Bank Ltd	7.3	AA	39.2	
China Construction Bank NZ Ltd	5.4	A	22.4	Yield to Maturity
Westpac New Zealand Ltd	6.3	BBB	20.1	Fund (gross) 1.61% vs Benchmark 1.27%
Kiwibank Ltd	4.6	BB	0.9	

## 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 month and performed in line with the Bloomberg NZ Bond Credit benchmark over the month as interest rates moved higher in yield. Duration positioning and sector allocation were neutral, while a higher fund yield was helpful.

### Key Fund Facts

<b>Distributions</b>	<b>Estimated annual fund charges (incl. GST)</b>		
Wholesale fund: calendar quarter	Wholesale fund: negotiated outside of unit price		
Retail fund: calendar quarter	Retail fund: 0.70%, refer PDS for more details		
KiwiSaver fund: does not distribute	KiwiSaver fund: 0.80%, refer PDS for more details		
<b>Hedging</b>	<b>Buy / Sell spread:</b>	<b>Strategy size</b>	<b>Strategy Launch</b>
All investments will be in New Zealand dollars	<a href="#">Click to view</a>	\$501.6m	July 2009

## Compliance

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

## Contact Us

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