

Factsheet 30 June 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 yield curves have flattened in shape with the prospect of future rate hikes.
- The NZ bond market traded in a wider range over the month.
- NZ Credit margins have been stable.

Fund Highlights

- Over the quarter the fund returned 0.22%, outperforming its benchmark of 0.09%.
- NZ bond fund returns were mixed over the month as short maturity interest rates finished higher in yield, and longer rates lower.
- 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	0.21%	0.22%	-1.72%	4.55%	4.18%	5.64%
Benchmark ²	0.12%	0.09%	-3.00%	3.20%	2.79%	4.32%
Retail ³	0.17%	0.07%	-2.38%	3.81%	3.43%	4.81%

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^{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.

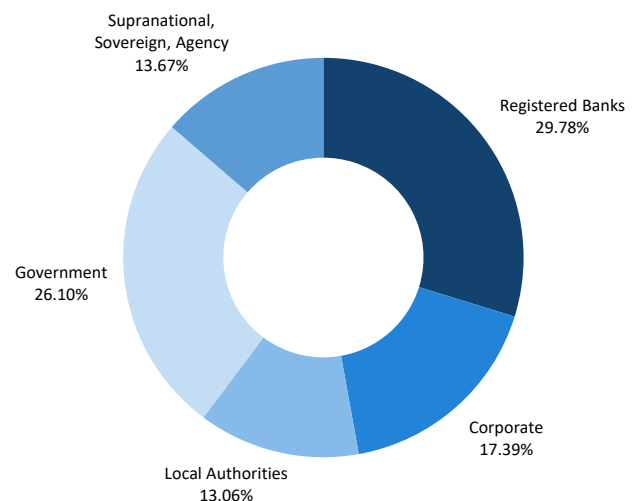
Overview

The 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	7.5	AAA	53.3	Fund 5.51 years vs Benchmark 5.39 years
New Zealand Local Govt Funding Agency	7.5	AA	20.2	Yield to Maturity
Housing New Zealand Ltd	5.9	A	22.1	Fund (gross) 1.55% vs Benchmark 1.32%
China Construction Bank NZ Ltd	5.8	BBB	2.8	Green, sustainability and social bonds
Kiwibank Ltd	4.7	BB	1.6	8.7% of the fund

*excludes central government

Market Commentary

Over the June month the NZ yield curve “bear flattened” in shape as short maturity bonds moved higher in yield while long maturity bonds finished lower. As a result of the large disparity individual bond performance, total fund performance was dependent on the funds yield curve positioning (maturity make up of bonds held by the fund), as short term bonds produced a negative return and longer than bonds were positive.

At month end the 1-year government bond finished 22 basis points higher, the 5-year finished 6 basis points higher in yield, and the 10-year bond and 2041 government bond were 6 basis points lower in yield. The flattening in the shape of the yield curve favoured longer maturity bonds which produced positive returns over the month whereas shorter maturity bonds had a negative month. Economic data releases have generally been stronger, and the yield curve may continue to flatten in shape. The market has started to price in the prospect of future interest rate hikes into the front of the yield curve which may keep pressure on shorter maturity bonds. Longer maturity bonds have already had a considerable move higher in yields with the reflation theme earlier this year and have been largely range bound recently. The direction of longer maturity bonds is likely to remain driven by a combination of local and offshore factors.

On a sector basis swap rates were generally better performers than similar maturities of government bonds, which in turn helped credit as it is priced as a margin over swap. Credit continued to remain supported with a lack of new issuance and secondary market supply of bonds. For the time being it looks like the bulk of the new bond issuance will remain government bonds and highly rated issues such as LGFA, and SSA’s. We have had less interest rate exposure over the past month however have been able to add some value through buying bonds at cheaper levels in the range, then selling at better levels lower in yield. Credit holdings should remain reasonably well supported, and a higher yield should continue to benefit returns over time.

Fund Commentary

The fund had a small positive return and outperformed the Bloomberg NZ Bond Composite benchmark over the quarter. For the month of June, duration was neutral, and yield curve positioning including a higher fund yield were helpful. Inflation linked bonds had a poor month relative to nominal government bonds. The fund held a lower weight to government bonds than the benchmark, which was a positive from a sector perspective as swap outperformed government bonds. We did add some value within the trading range through buying and selling bonds at better levels.

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

\$348.9m

Strategy Launch

October 2007

Compliance

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

Contact Us

www.nikkoam.co.nz | nzenquiries@nikkoam.com

This document is issued by Nikko Asset Management New Zealand Limited (Company No. 606057, FSP No. FSP22562), the investment manager of the Nikko AM NZ Investment Scheme, the Nikko AM NZ Wholesale Investment Scheme and the Nikko AM KiwiSaver Scheme. This information is for the use of researchers, financial advisers and wholesale clients. This material has been prepared without taking into account a potential investor’s objectives, financial situation or needs and is not intended to constitute personal financial advice, and must not be relied on as such. Recipients of this document, who are not wholesale investors (in accordance with Schedule 1, Clause 3 Financial Markets Conduct Act 2013), or their duly appointed agent, should consult a Financial Advice Provider and the relevant Product Disclosure Statement. Past performance is not a guarantee of future performance. While we believe the information contained in this presentation is correct at the date of presentation, no warranty of accuracy or reliability is given and no responsibility is accepted for errors or omissions including where provided by a third party. For full details on the retail and KiwiSaver funds, please refer to the relevant Product Disclosure Statement on nikkoam.co.nz.