

Factsheet 30 June 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

- 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 showed a positive return of 0.22%, outperforming its benchmark return of 0.10%.
- 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	0.20%	0.22%	-0.03%	4.92%	4.82%	6.04%
Benchmark ²	0.12%	0.10%	-0.22%	4.01%	3.27%	4.56%
Retail ³	0.14%	0.04%	-0.79%	4.11%	4.01%	5.15%
KiwiSaver ³	0.14%	0.03%	-0.83%	4.45%		

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.

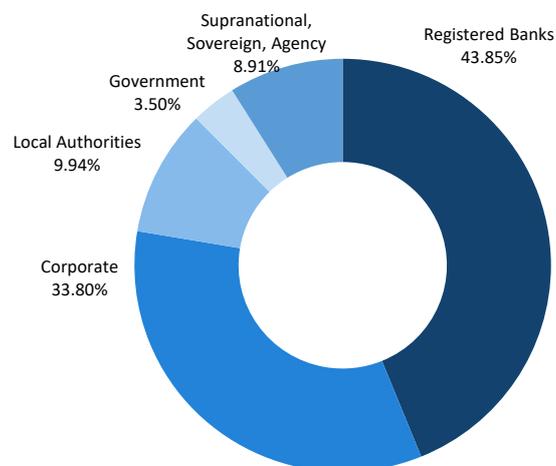
Overview

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
Bank of New Zealand	9.7	AAA	19.6	Fund 3.44 years vs Benchmark 3.34 years
Westpac New Zealand Ltd	8.8	AA	40.5	Yield to Maturity
ASB Bank Ltd	7.4	A	21.3	Fund (gross) 1.62% vs Benchmark 1.30%
Housing New Zealand Ltd	4.9	BBB	17.8	Green, sustainability and social bonds
Kiwibank Ltd	4.9	BB	0.8	10.6% of the fund

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

Over the quarter the fund showed a positive return of 0.22%, outperforming its benchmark return of 0.10%. Over June the fund had a small positive return and modestly outperformed the Bloomberg NZ Bond Credit benchmark over June. For the month of June, duration was neutral, and yield curve positioning including a higher fund yield were helpful. Credit looks likely to remain well supported. We added value by taking advantage of interest rate movements which provided good trading opportunities.

Key Fund Facts

Distributions	Estimated annual fund charges (incl. GST)		
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		
Hedging	Buy / Sell spread:	Strategy size	Strategy Launch
All investments will be in New Zealand dollars	Click to view	\$569.6m	July 2009

Compliance

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

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