

Factsheet 31 July 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

- The NZ Bond yield curve continued to flatten in shape, short-term rates lifted as OCR increases are expected to occur sooner than previously expected.
- The NZ bond market is looking increasingly cheap compared to offshore.
- The NZ Credit sector has performed well as buying interest remains strong.

Fund Highlights

- NZ bond 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 | 0.79% | 0.36% | -1.85% | 4.71% | 4.11% | 5.68% |
| Benchmark ² | 0.71% | 0.12% | -2.96% | 3.31% | 2.75% | 4.33% |
| Retail ³ | 0.72% | 0.21% | -2.51% | 3.96% | 3.36% | 4.85% |

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.

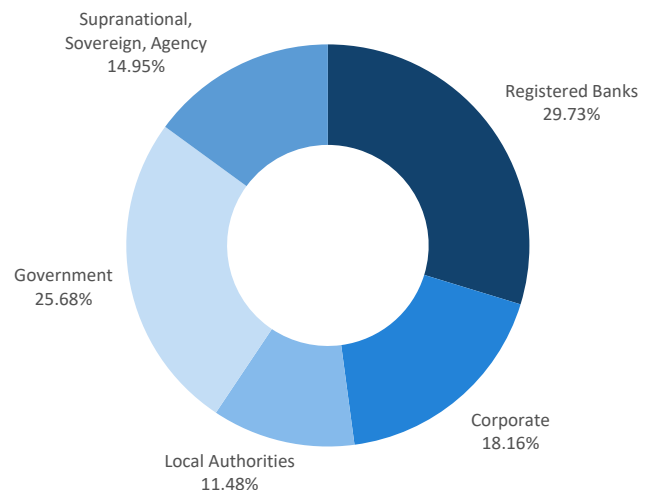
Overview

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 | 7.47 | AAA | 53.6 | Fund 5.49 years vs Benchmark 5.44 years |
| Housing New Zealand Ltd | 6.86 | AA | 20.3 | Yield to Maturity |
| New Zealand Local Govt Funding Agency | 5.95 | A | 21.8 | Fund (gross) 1.55% vs Benchmark 1.35% |
| China Construction Bank NZ Ltd | 5.71 | BBB | 2.7 | Green, sustainability and social bonds |
| Westpac New Zealand Ltd | 4.92 | BB | 1.6 | 11.0% of the fund |

*excludes central government

Market Commentary

Over the month of July, the NZ yield curve continued to flatten in shape as short maturity bonds moved higher in yield while long maturity bonds moved lower. Similar to June, there was a difference in fund performance depending on the fund’s yield curve positioning (maturity make up of bonds held by the fund). Short term bonds performed poorly in comparison to longer maturity bonds.

At month end the 1-year government bond finished 20 basis points higher, the 5-year finished 1 basis point lower in yield, and the 10-year bond and 2041 government bonds, were 15 basis points, and 33 basis points lower in yield respectively. 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.

Local economic data has been surprisingly strong with recent strength in inflation and employment data, seeing the market continue to bring forward interest rate hike expectations. This has kept pressure on shorter maturity bonds, whereas longer maturity bonds have performed well following offshore bonds lower in yield, based on expectations that inflation will be transitory. The direction of longer maturity bonds is likely to remain driven by a combination of local and offshore factors. On a sector basis NZ government bonds were better performers than similar maturities of swap over the month. Inflation linked bonds also had a strong month. Credit performed well despite the expansion in swap margins as some of the spread widening was offset by tighter credit margins.

Fund Commentary

The fund had a positive return and modestly outperformed the Bloomberg NZ Bond Composite benchmark over the month. Duration started slightly longer, then moved back to benchmark as yields moved lower and some positions were sold. Yield curve positioning including a higher fund yield were helpful. Inflation linked bonds had a strong 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 swaps.

We have positioned the fund’s holdings where we think the better parts of the yield curve to invest are. The fund’s interest rate exposure has been close to benchmark as we have been reluctant to shorten duration further while offshore yields are testing lower levels. We have been able to add value through buying bonds at cheaper levels higher in the range then selling at better levels as yields fell. Credit holdings should remain reasonably well supported, and a higher yield should continue to benefit returns over time.

Key Fund Facts

| | | | |
|--|------------------|--|----------------------------------|
| Distributions | | Estimated annual fund charges (incl. GST) | |
| Wholesale fund: | Calendar quarter | Wholesale: | Negotiated outside of unit price |
| Retail fund: | Calendar quarter | Retail: | 0.65%, refer PDS for more detail |
| Hedging | | Buy / Sell spread | Strategy size |
| All investments will be in New Zealand dollars | | Click to view | \$353.5m |
| Restrictions | | Strategy Launch | |
| Adult entertainment, gambling, fossil fuels, alcohol stocks, tobacco stocks. For more information please refer to the Statement of Investment Policy and Objectives (SIPO) which can be found on our website https://www.nikkoam.co.nz/invest/retail . | | October 2007 | |
| Exclusions | | | |
| Securities that conduct activities listed on the Schedule to Cluster Munitions Prohibition Act 2009. Tobacco manufacturers. | | | |

Compliance

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

Contact Us

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