

Factsheet 31 August 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 finished the month higher in yield.
- The NZ bond market is looking increasingly cheap compared to offshore markets, and around 1% of cash rate hikes are priced in.
- NZ Credit has performed well.

Fund Highlights

- NZ Bond fund returns were negative over the month as interest rates moved higher along the yield curve despite a re-emergence of COVID and lockdowns.
- 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	-0.87%	0.13%	-4.18%	3.96%	3.82%	5.42%
Benchmark ²	-1.01%	-0.18%	-4.68%	2.53%	2.52%	4.03%
Retail ³	-0.92%	-0.04%	-4.82%	3.22%	3.07%	4.59%

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.

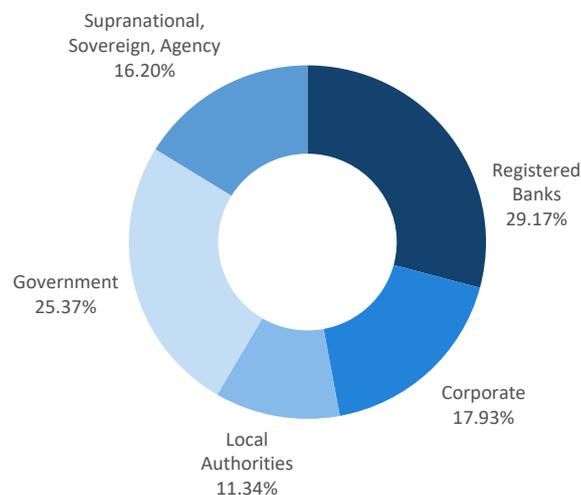
Overview

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	7.38	AAA	54.4	Fund 5.49 years vs Benchmark 5.32 years
Housing New Zealand Ltd	6.77	AA	19.7	Yield to Maturity
New Zealand Local Govt Funding Agency	5.87	A	21.7	Fund (gross) 1.71% vs Benchmark 1.55%
China Construction Bank NZ Ltd	5.69	BBB	2.7	Green, sustainability and social bonds
Westpac New Zealand Ltd	4.82	BB	1.5	12.3% of the fund

*excludes NZ central government

Market Commentary

Over the month of August, bond returns were mostly negative as the NZ bond curve moved higher in yield. The movement up in yields was relatively parallel along the curve as both short-term and longer term bonds finished the month around 20 basis points higher. The fund’s interest rate exposure has been close to benchmark as we have been reluctant to shorten duration further and give up yield while longer maturity bonds remain in their current range. At month end the 1-year government bond finished 21 basis points higher, the 5-year finished 23 basis point higher in yield, and the 10-year bond and 2041 government bond were 20 basis points, and 25 basis points higher in yield respectively. The outbreak of COVID in the community and lockdowns did see interest rates temporarily lower, however short-term rates again moved higher as expectations for cash rate hikes were ramped up following more “hawkish commentary from the Reserve Bank. This also had some impact on longer term bonds, as did moves higher in offshore bond yields. The upcoming issuance of a new 30-year NZ government bond is also weighing on longer bonds as rates generally cheapen before new deal syndications.

On a sector basis, NZ government bonds and swaps had a similar performance with a slight narrowing in some swap maturities relative to governments. Credit is continuing to perform well with new issues receiving good demand, secondary credit margins have remained tight, and a higher yield should continue to benefit returns over time. The new ANZ bank T2 subordinated bond issue should see strong demand if it prices around 3%. NZ economic data had been surprisingly strong and although there remains a lot of uncertainty around how the current lockdown situation will play out, we will likely see some bounce back. A lot is now priced in for higher cash rates, and it has been hard to add value through duration positioning with yields moving higher. Still, we have been positioning the fund’s holdings where we think the safer/better parts of the yield curve to invest are. Expectations are that the NZ yield curve will continue to flatten in shape while the search for yield remains, again the direction of longer maturity bonds is likely to remain driven by a combination of local and offshore factors.

Fund Commentary

The fund had a negative return and modestly outperformed the Bloomberg NZ Bond Composite benchmark over the month. Duration was a slight negative. Yield curve positioning including a higher fund yield were helpful. We did add some value within the trading range through buying and selling bonds at better levels.

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	Strategy Launch	
All investments will be in New Zealand dollars	Click to view	\$353.7m	October 2007	
Restrictions				
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 .				
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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