

Factsheet 30 September 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 curve moved higher in yield over September.
- NZ bonds still look cheap compared to offshore markets as a series of interest hikes are priced into current NZ yields.
- There has been a reasonable amount of new issuance and credit issues have continued to perform well.

Fund Highlights

- The fund modestly outperformed the Bloomberg NZ Bond Composite benchmark over the quarter.
- The Duration positioning of the fund varied from neutral to moderately long over the quarter and the overall contribution from duration was a slight negative as interest rates finished July to September higher in yield. Yield curve positioning including a higher fund yield were helpful as was holding Inflation Linked Government bonds.

Performance

	One month	Three months	One year	Three years (p.a)	Five years (p.a)	Ten years (p.a)
Wholesale ¹	-0.78%	-0.87%	-5.61%	3.69%	3.61%	5.21%
Benchmark ²	-0.87%	-1.17%	-6.14%	2.28%	2.37%	3.84%
Retail ³	-0.83%	-1.03%	-6.23%	2.96%	2.87%	4.38%

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.

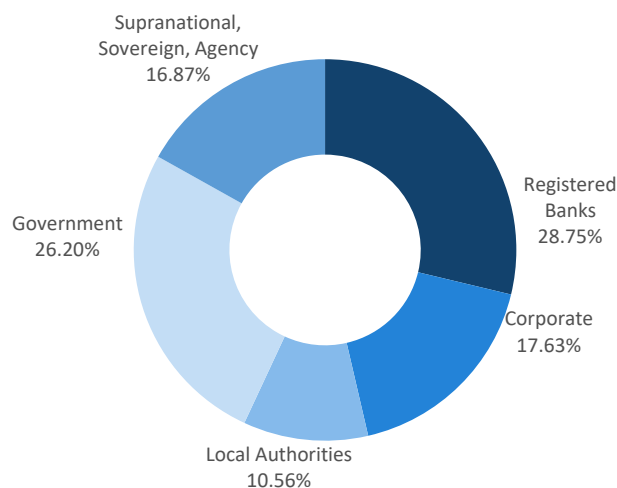
Overview

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	7.41	AAA	55.3	Fund 5.87 years vs Benchmark 5.23 years
Housing New Zealand Ltd	7.03	AA	20.1	Yield to Maturity
China Construction Bank NZ Ltd	5.80	A	20.0	Fund (gross) 1.98% vs Benchmark 1.73%
New Zealand Local Gov Funding Agency	5.01	BBB	3.0	Green, sustainability and social bonds
Westpac New Zealand Ltd	4.64	BB	1.6	13.0% of the fund

*excludes NZ central government

Market Commentary

The month of September was a bit like “groundhog-day” in that NZ bond returns were mostly negative as the NZ bond curve moved higher in yield similar to August. The front of the yield curve and long-end experienced smaller increases in yields than mid-curve, although it is important to note that longer maturity bonds have larger changes in capital values when yields move. With interest rates moving higher it has been harder to achieve positive returns from bonds in a low yield environment. The 2-year government bond finished 8 basis points (bps) higher, the 5-year finished 17 bps higher in yield, and the 10-year bond and 2041 government bond were 27 bps and 9 bps higher in yield respectively.

On a sector basis NZ government bonds and swaps had a similar performance with a slight expansion in yields in some swap maturities relative to governments. Credit is continuing to perform well with new issues receiving strong demand to the point of being rationed versus primary demand. Secondary credit margins have remained tight, and a higher portfolio yield should continue to benefit returns over time. NZ economic data has remained strong, but we have concerns about increasing uncertainty here and offshore and, a likelihood of a moderation in growth while inflation may still be elevated over the medium term. The NZ Reserve Bank seems determined to move the cash rate higher with strong employment and higher inflation despite COVID and we have been mindful of investing in better/safer parts of the yield curve which will likely be less impacted by rising rates, this includes increasing the portfolio’s exposure to Inflation Linked bonds. On a positive note, there is now a significant expectation for rate increases priced into the yield curve which gives us some more comfort for improving returns from bonds over the medium term.

Fund Commentary

The fund modestly outperformed the Bloomberg NZ Bond Composite benchmark over the quarter. The Duration positioning of the fund varied from neutral to moderately long over the quarter and the overall contribution from duration was a slight negative as interest rates finished July to September higher in yield. Yield curve positioning including a higher fund yield were helpful. Inflation linked bonds have performed well with interest rates higher on increasingly inflation expectations. The fund held a lower weight to government bonds than the benchmark which was at times a negative from a sector perspective as government bonds outperformed swaps. Credit continues to be one of the main value adds. We did add some value within the trading range through participating in new bond issues and 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	\$346m	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.			

Compliance

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

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