

Factsheet 30 September 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

- 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 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 Corporate 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.

Performance

	One month	Three months	One year	Three years (p.a)	Five years (p.a)	Ten years (p.a)
Wholesale ¹	-0.42%	-0.80%	-3.08%	4.12%	4.24%	5.67%
Benchmark ²	-0.51%	-1.05%	-2.76%	3.13%	2.87%	4.09%
Retail ³	-0.48%	-0.98%	-3.82%	3.32%	3.44%	4.80%
KiwiSaver ³	-0.48%	-1.03%	-3.90%	3.55%		

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.

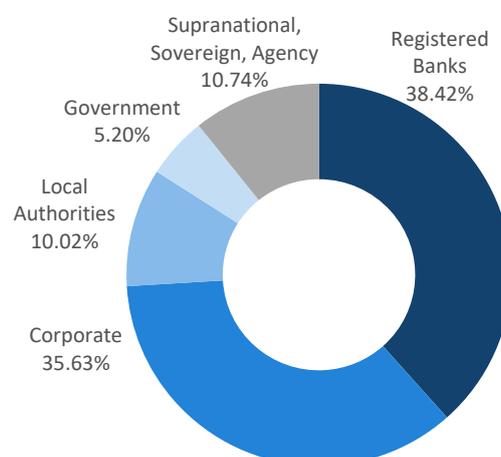
Overview

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
Westpac New Zealand Ltd	7.3	AAA	24.65	Fund 3.78 years vs Benchmark 3.22 years
Bank of New Zealand	7.1	AA	36.21	Yield to Maturity
ASB Bank Ltd	6.7	A	18.85	Fund (gross) 2.17% vs Benchmark 1.81%
Housing New Zealand Ltd	6.0	BBB	19.66	Green, sustainability and social bonds
Kiwibank Ltd	4.7	BB	0.63	14.2% of the fund

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 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. A small exposure to Government Inflation Linked Bonds has also been helpful. Also, 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 better returns from bonds over the medium term.

Fund Commentary

The fund modestly outperformed the Bloomberg NZ Bond Corporate 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 resulted in a higher fund yield which was helpful. There were a number of new bond issues over the quarter that received very strong demand as yields approached 3%. Security selection and credit continues to be one of the main value adds. Value was added by taking advantage of the bond market trading range through participating in new bond issues and buying and selling bonds at good levels.

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	\$683.3m	July 2009
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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