

Factsheet 30 November 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

- NZ interest rates moved lower over the month.
- The returns for NZ bonds were mostly positive over the month.
- The pipeline of new bond issuance appears to have slowed into year end.

Fund Highlights

- The fund return was positive over the month as interest along the yield moved lower curve.
- The fund has a modest long duration position.
- The outlook for credit remains supportive and maintaining a higher fund yield should benefit returns.

Performance

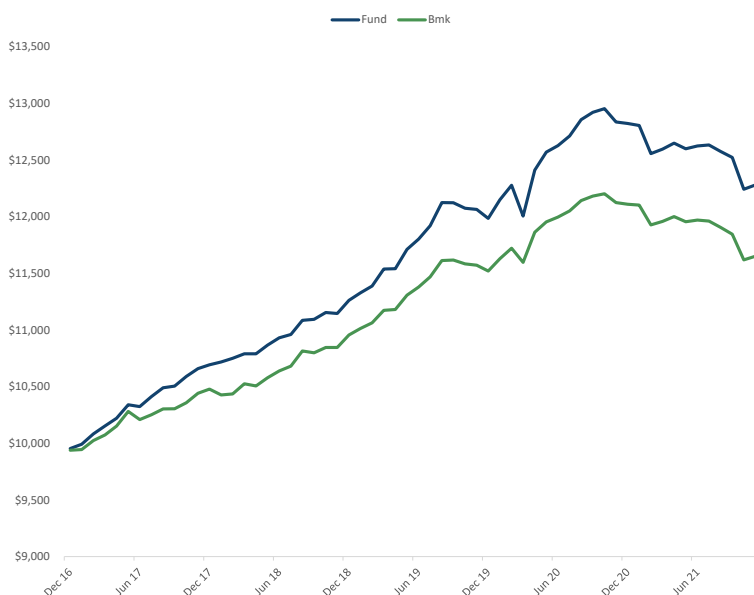
	One month	Three months	One year	Three years (p.a)	Five years (p.a)	Ten years (p.a)
Wholesale ¹	0.32%	-2.35%	-4.33%	3.28%	4.20%	5.35%
Benchmark ²	0.28%	-2.13%	-3.90%	2.42%	3.11%	3.68%
Retail ³	0.27%	-2.53%	-5.04%	2.49%	3.39%	4.50%
KiwiSaver ³	0.26%	-2.52%	-5.12%	2.67%		

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.

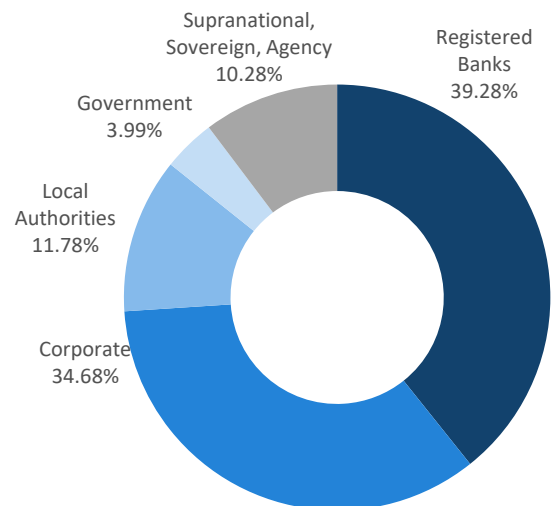
Overview

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	7.0	AAA	22.7	Fund 3.59 years vs Benchmark 3.14 years
ASB Bank Ltd	6.6	AA	37.6	Yield to Maturity
Kiwibank Ltd	6.6	A	19.9	Fund (gross) 2.73% vs Benchmark 2.51%
Housing New Zealand Ltd	6.3	BBB	19.2	Green, sustainability and social bonds
Bank of New Zealand	6.2	BB	0.6	16.22% of the fund

Market Commentary

The NZ bond market had a better month as interest rates moved lower following some pricing reassessment after the November update from the Reserve Bank (RB). The RB acknowledged the strength of the economy, in particular strong employment and inflation has caused them to increase their OCR projections. However, interest rates subsequently fell as the market had already priced in a lot more interest rate increases than the considered steps approach the RB discussed. Following the last couple of months of ongoing moves higher in interest rates the risks may have become more balanced for interest rates into year end.

The 2-year government bond finished 23 basis points (bp) lower, the 5-year finished 16 bps lower in yield, and the 10-year bond and 2051 government bond were 18 bps and 4 bps lower in yield respectively. NZ swaps rates underperformed the move lower in rates considerably in comparison to government bonds. Swap margins widened due to a combination of one-way flow from mortgage fixing and strong buying of government bonds in shorter maturities. Credit holdings continued to perform well. There has been some widening in NZ bank margins over the past 2 months to now be more in line with wider spreads in Australia. This should be helpful for future returns as will the current demand for bonds around “the belly of the curve” (3 to 6 years in maturity). New issuance was well supported through the month although investors seem to be becoming more discerning and the last couple of deals were a little softer in demand. The New Year looks as though it should be reasonably supportive for credit with a gap in issuance over the holiday period and monies to be re-invested.

In terms of direction from here yield curves have become very flat, the market is struggling with poor liquidity, inflation - which may remain elevated over the medium term, balanced against a reasonable degree of uncertainty in a COVID world. The front of the yield curve has a lot priced in with the yield curve now very flat out to 10 years. The longer end of the yield curve is also very flat in shape, and the direction of offshore bonds will likely have a greater influence on the direction of long maturity NZ bonds.

Fund Commentary

The move lower in interest rates produced a positive return and the fund marginally outperformed the Bloomberg NZ Bond Credit benchmark over the month. The fund’s duration was modestly longer which was a positive. Yield curve positioning including a higher fund yield were also helpful.

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
All investments will be in New Zealand dollars		Click to view	\$684.7m
			Strategy Launch
			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 month.

Contact Us

www.nikkoam.co.nz | nzenquiries@nikkoam.com

This document is issued by Nikko Asset Management New Zealand Limited (Company No. 606057, FSP No. FSP22562), the investment manager of the Nikko AM NZ Investment Scheme, the Nikko AM NZ Wholesale Investment Scheme and the Nikko AM KiwiSaver Scheme. This material has been prepared without taking into account a potential investor’s objectives, financial situation or needs and is not intended to constitute personal financial advice, and must not be relied on as such. Recipients of this document, who are not wholesale investors (in accordance with Schedule 1, Clause 3 Financial Markets Conduct Act 2013), or their duly appointed agent, should consult a Financial Advice Provider and the relevant Product Disclosure Statement. Past performance is not a guarantee of future performance. While we believe the information contained in this presentation is correct at the date of presentation, no warranty of accuracy or reliability is given and no responsibility is accepted for errors or omissions including where provided by a third party. For full details on the retail and KiwiSaver funds, please refer to the relevant Product Disclosure Statement on nikkoam.co.nz.