Factsheet 30 April 2022

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

- Bond markets had another poor month in April due to rises in interest rates.
- The shape of the yield curve is very flat.
- New issuance has been modest and credit margins reasonably stable.

Fund Highlights

- The fund return was negative due to rising yields.
- The fund's duration has been positioned close to benchmark.
- Swap underperformed government bonds which was unhelpful.

Performance

	One month	Three months	One year	Three years (p.a)	Five years (p.a)	Ten years (p.a)
Wholesale[1]	-1.34%	-3.31%	-6.21%	0.92%	3.03%	4.66%
Benchmark[2]	-1.25%	-3.24%	-6.15%	0.25%	2.10%	3.10%
Retail[3]	-1.40%	-3.48%	-6.87%	0.16%	2.24%	3.81%
KiwiSaver[3]	-1.40%	-3.46%	-6.91%	0.23%		

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).

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

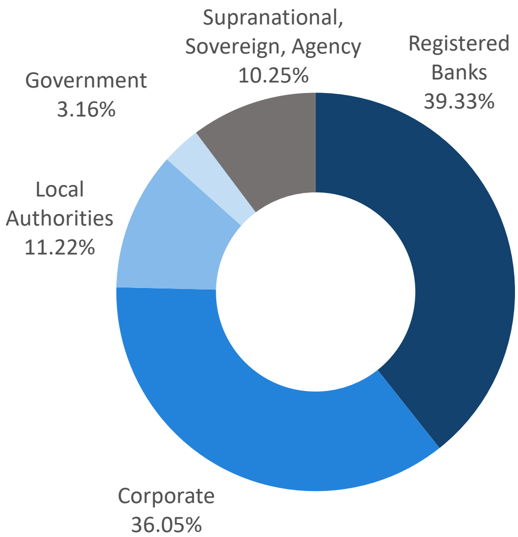
The strategy aims to generate income by constructing an actively managed investment portfolio of New Zealand bonds, deposits, and cash with the potential for capital gain from New Zealand dollar fixed interest markets.

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.

Five Year Cumulative Performance, $10,000 invested[1,2]

Asset Allocation



Top 5 Corporate Issuers	%	Credit Quality (% of fund)	%	Duration
Westpac New Zealand Ltd	9.4	AAA	19.8	Fund 3.52 years vs Benchmark 3 years
Kiwibank Ltd	6.9	AA	38.0	**Yield to Maturity**
ASB Bank Ltd	6.6	A	18.0	Fund (gross) 4.31% vs Benchmark 4.12%
Housing New Zealand Ltd	6.2	BBB	22.9	**Green, sustainability and social bonds**
Bank of New Zealand	4.9	BB	1.2	16.93% of the fund

Market Commentary

April was another disappointing month for bond returns. NZ Interest rates remained under pressure as offshore bonds marched higher in yield, and the local market continued to price faster and larger increases in the cash rate by the RBNZ. The rise in rates over 2022 has been relentless with any dips lower in yield being shallow and short lived. Over the month the move higher in yields was parallel along the curve. NZ 2-year government bond finished 42 basis points (bps) higher, the 5-year finished 43 bps higher, and the 10-year bond and 2051 government bond were 42 bps, and 43 bps higher in yield respectively. From a sector perspective, NZ government were the best performing sector over the month, Inflation linked government bonds performed better than nominals. Swap margins expanded by approximately 10 bps relative to similar maturities of governments. NZ credit margins were relatively stable at month end as the volume of new issuance tailed off and investors bought bonds at higher yields. There has been solid secondary demand for short and mid curve bonds as this has been viewed as a “safer/better” place to invest with rising rates and a flat curve. Central banks seem determined to rapidly return rates to at least neutral levels, (in NZ around 2.5 - 3%), and it may be difficult for longer bonds until we get there. The question is how much further will they hike? There is a lot priced in for higher interest rates to fight inflation which will be at the cost of growth. Over history flat or inverted yields curves have been viewed as a potential harbinger of slowing growth and there is risk of a policy mistake with cash rates going too high too fast.

Fund Commentary

The fund had a negative monthly return due to rising interest rates and underperformed the Bloomberg NZ Bond Credit benchmark. The holding of Inflation linked bonds continued to outperform. The expansion in swap which also impacted credit was unhelpful. Swap margins expansion relative to similar maturities of governments was unhelpful for returns as the fund generally holds less government bonds due to their lower yield and more credit which is priced as a margin above swap. The fund has been positioned close to benchmark duration as we have wanted to have less risk in uncertain times. Duration has varied between slightly short to slightly long since 2021 year-end (currently modestly longer). The fund achieves a high yield from credit and holding inflation linked government bonds where appropriate which should benefit returns. A gradual recycle into new deals at higher levels is our plan. We also continue selling bonds that look expensive and switching into more defensive/liquid holdings.

Key Fund Facts

Distributions

Wholesale fund: calendar quarter
Retail fund: calendar quarter
KiwiSaver fund: does not distribute

Estimated annual fund charges (incl. GST)

Wholesale fund: negotiated outside of unit price
Retail fund: 0.70%, refer PDS for more details
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	$636.4m	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

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