

Factsheet 31 May 2022

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

- Bond markets had their first positive month this year.
- The shape of the swap yield curve remains flat.
- New issuance has been modest and credit margins reasonably stable.

Fund Highlights

- NZ Bond fund returns were positive.
- The funds duration has been positioned close to benchmark.
- The yield curve positioning of the funds was helpful.

Performance

	One month	Three months	One year	Three years (p.a)	Five years (p.a)	Ten years (p.a)
Wholesale ¹	0.19%	-3.84%	-7.47%	-0.65%	2.05%	3.79%
Benchmark ²	0.22%	-3.74%	-7.87%	-1.78%	0.91%	2.36%
Retail ³	0.13%	-4.00%	-8.06%	-1.33%	1.33%	2.99%

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.

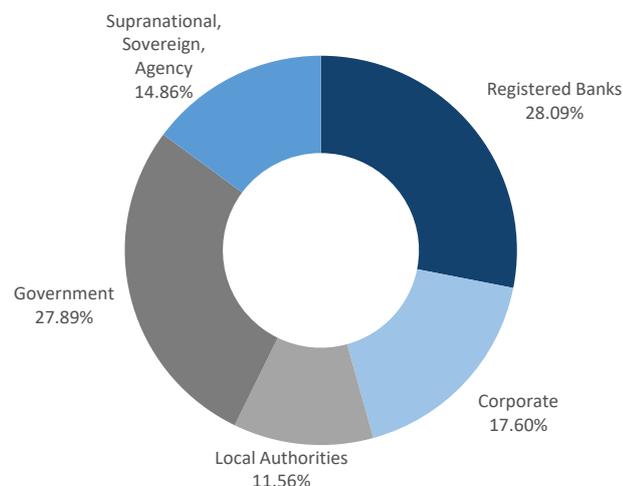
Overview

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
Westpac New Zealand Ltd	8.58	AAA	54.9	Fund 5.02 years vs Benchmark 4.89 years
Housing New Zealand Ltd	7.74	AA	22.7	Yield to Maturity
Kommunalbanken AS	6.59	A	17.5	Fund (gross) 3.86% vs Benchmark 3.70%
Kiwibank Ltd	5.06	BBB	2.9	Green, sustainability and social bonds
China Construction Bank NZ Ltd	4.23	BB	2.0	17.14% of the fund

*excludes NZ central government

Market Commentary

NZ bonds had a positive return for the month which was pleasing. This is the first reasonable move lower in NZ bond yields this year, mid curve bonds finished the month lower in yield, while short and longer maturity bonds were higher. In May it was important where you were invested along the yield curve as there was a noticeable difference in performance. The 1-year government bond finished 11 (basis points) bps higher, the 2-year 5 bps higher, the 5-year finished 9 bps lower, and the 10-year bond and 2051 government bond were 6 bps lower, and 16 bps higher in yield respectively. Where appropriate we have had an overweight positioning in mid-curve bonds around 5 years in maturity which has been helpful for returns.

From a sector perspective there was a variance in performance across maturities. Shorter maturity government bonds up to 7 years performed better than swaps. Conversely swaps longer than 10 years in maturity performed better than the same maturities of governments. It is better for our funds when swap outperforms government bonds. We generally hold fewer lower yielding government bonds and have more exposure (indirectly) to swap as our credit holdings are priced as a margin over the underlying swap rate. NZ credit margins were relatively stable as demand has continued to dominate pricing with a lack of supply in new issues and the secondary market. We have added some new bonds but remain very selective in what we buy and continue to sell bonds that look expensive in terms of credit margin. We remain cautious on fund positioning in terms of interest rate risk while a fair degree of uncertainty remains. High inflation, hawkish central bank rhetoric, and larger/faster rate increases have dominated the direction of interest rates this year. At the same time the prospect for bond returns may be improving. We can buy quality mid-curve bonds at yields around 5% which will likely perform reasonably well over the medium term. Over history flat or inverted yields curves have been viewed as a potential harbinger of slowing growth and although the cash rate will go higher in the near-term concerns over growth prospects are increasing and this will likely weigh on how high bond yields will go.

Fund Commentary

The fund had a positive month due to a move lower in the mid part of the yield curve. Performance was in line with the Bloomberg NZ Bond Composite benchmark. 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 bond 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. 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		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
All investments will be in New Zealand dollars		Click to view	\$365.2m
Restrictions		Strategy Launch	
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 .		October 2007	
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, except that the fund was 0.1% outside its range for BBB and below investments at the prior month end, this was rectified on 10 May.

Contact Us

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