

Factsheet 30 June 2023

# 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 finished the quarter higher in yield as rate cut expectations were pushed further into the future.
- The RBNZ gave guidance they have likely finished hiking rates but there is still uncertainty around inflation and the economy.
- NZ credit has performed well over the quarter tightening in margin as supply reduced.

## Fund Highlights

- The fund started the month slightly short duration and extended longer at better levels during May.
- We want to maintain a higher yield and participate in gains if rates move lower.

## Performance

	One month	Three months	One year	Three years (p.a)	Five years (p.a)	Ten years (p.a)
Wholesale <sup>1</sup>	-0.24%	0.61%	2.96%	-1.09%	2.26%	4.18%
Benchmark <sup>2</sup>	-0.10%	0.68%	2.73%	-1.12%	1.74%	3.15%
Retail <sup>3</sup>	-0.30%	0.44%	2.26%	-1.79%	1.50%	3.36%
KiwiSaver <sup>3</sup>	-0.29%	0.43%	2.22%	-1.82%	1.69%	

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.

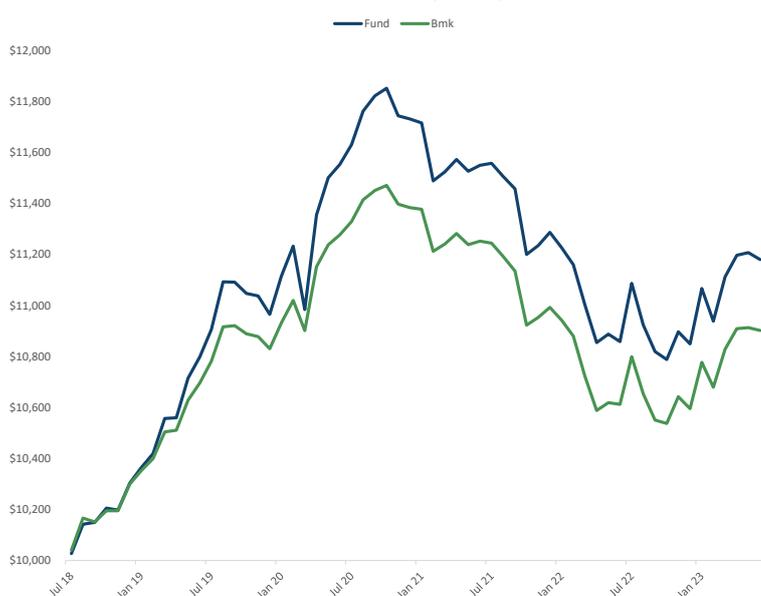
## Overview

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.

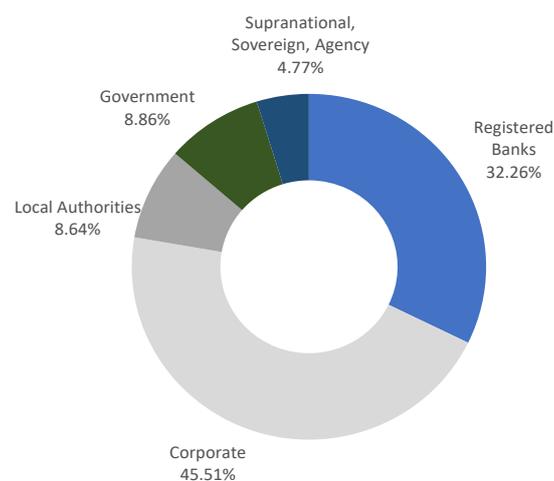
## Objective

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<sup>1,2</sup>



## Asset Allocation



Top 5 Corporate Issuers*	%	Credit Quality (% of fund)	%	Green, sustainable and social bonds
Housing New Zealand Ltd	9.5	AAA	30.1	18.18% of the fund
Westpac New Zealand Ltd	7.0	AA	26.5	<b>Duration</b>
Kiwibank Ltd	6.4	A	15.9	Fund 3.49 years vs Benchmark 2.92 years
ASB Bank Ltd	5.8	BBB	27.5	<b>Yield to Maturity*</b>
China Construction Bank NZ Ltd	5.1			Fund (gross) 5.96% vs Benchmark 5.68%

\*Includes cash held by custodian

\* Excluding the inflation component of government inflation linked bonds

## Market Commentary

NZ bond returns were flat to negative for the quarter due to moves higher in interest rates. April was a good start with a move lower in rates. Unhelpfully, rates moved higher in both May and June as economic data generally underlined more resilience in the economy with inflation slower to fall and expectations for interest rate cuts pushed further out.

In terms of sectors, NZ government bonds have underperformed on the prospect of more issuance and several government maturities are now higher than swap rates. NZ credit has performed well, supported by strong demand versus new issuance and secondary supply.

Over the quarter movements in government bond yields were 2yr + 34bps, 5 yr + 29 bps and 10 yr + 46 bps. For comparison, swap maturities were 2yr +44 bps, 5 yr + 24 bps and 10 yr + 20bps. Longer maturity swap performed better than governments.

While the RBNZ has paused on rate hikes they won't start lowering rates until they are confident inflation is under control. Therefore, it's likely short-term rates may need to be higher for longer. There is a risk this may drag the mid curve higher. The longer end of the curve is inverted and will likely follow the data, and although we give up yield investing longer, there is the potential for greater capital gains from longer maturity bonds if rates move lower.

## Fund Commentary

The fund performance was in line with the Bloomberg NZ Corporate Bond benchmark for both the June month and the quarter. The move higher in interest rates was the main driver of absolute returns although given the shorter duration this didn't outweigh the accrual from yield.

The fund started April slightly longer than benchmark and we modestly extended duration through buying longer maturity bonds at higher rates during May. Overall the move higher in rates has been unhelpful, however rates are now close to mid-term range highs in yield.

On sector performance NZ government bonds underperformed both swap and credit following news of increased supply. NZ credit has performed well with a gradual contraction in margins.

In uncertain times we generally keep positioning modest relative to benchmark, however with rates towards recent highs and given the balance of risks we have been moving towards a barbell yield curve positioning. We think the front of the yield curve will be the highest yielding part of the curve for the longest and having a higher yield is a consistent way to add value. We achieve this through overweighting the front of the curve in high-quality credit and less in the mid curve. We also want to participate in gains if rates do move lower and will add some longer maturity bonds opportunistically on moves higher in yield.

## Key Fund Facts

<b>Distributions</b>	<b>Estimated annual fund charges (incl. GST)</b>		
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: 0.70%, refer PDS for more details		
<b>Hedging</b>	<b>Buy / Sell spread:</b>	<b>Strategy size</b>	<b>Strategy Launch</b>
Any foreign currency exposure to be hedged to NZD within operational range of 97.5%-102.5%	<a href="#">Click to view</a>	\$495.6m	July 2009
<b>Exclusions:</b> controversial weapons.			
<b>Restrictions:</b> 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 <a href="https://www.nikkoam.co.nz/invest/retail">https://www.nikkoam.co.nz/invest/retail</a> .			

## Compliance

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

## Contact Us

[www.nikkoam.co.nz](http://www.nikkoam.co.nz) | [nzenquiries@nikkoam.com](mailto: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](http://nikkoam.co.nz).