

# Nikko AM NZ Bond Strategy

Monthly Update 31 May 2025

Assets are held in the Nikko AM Wholesale NZ Bond Fund. The Nikko AM NZ Bond Fund (retail) and the GoalsGetter KiwiSaver Scheme Nikko AM NZ Bond Fund invest in units in the wholesale fund, which the commentary refers to.

## Market Overview

- Bond markets were volatile with elevated uncertainty and fiscal deficit concerns pressuring term premiums higher.
- Yield curves remain steep with longer government bonds trading higher than swap rates in NZ.
- NZ bond issuance remains limited which should continue to support credit margins.

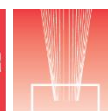
## Fund Highlights

- NZ bond returns were negative due to moves higher in interest rates.
- Credit and NZ Government bonds were the better performing sectors over the month.
- We expect the funds will perform well over the medium term with short rates low and carry-and-roll providing a larger contribution to returns over the medium term.

## 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, Senior Fixed Income Manager and Matthew Johnson, Senior Fixed Income Manager.



**Awards  
2025**

**Fund Manager of the  
Year – Fixed Interest**  
Nikko Asset  
Management New  
Zealand

## Performance

	One month	Three months	One year	Three years (p.a.)	Five years (p.a.)	Ten years (p.a.)
<b>Wholesale<sup>1</sup></b>	-0.48%	0.83%	7.93%	4.87%	0.90%	3.56%
<b>Benchmark<sup>2</sup></b>	-0.38%	0.88%	7.12%	3.72%	-0.14%	2.53%
<b>Retail<sup>3</sup></b>	-0.55%	0.64%	7.19%	4.20%	0.25%	2.83%

- Returns are before tax and before the deduction of fees and including tax credits (if any).
- Current benchmark: Bloomberg NZBond Composite 0+ Yr Index. No tax or fees.
- Returns are before tax and after the deduction of fees and expenses and including tax credits (if any).

## 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.

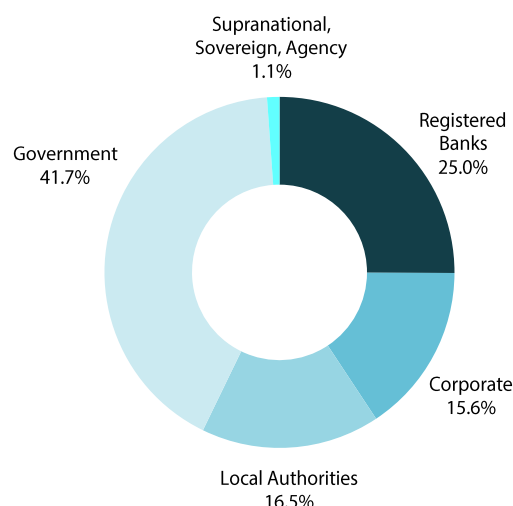
## Objective

The fund aims to outperform the benchmark return by 0.60% per annum before fees, expenses and taxes over a rolling three-year period.

## Five Year Cumulative Performance, \$10,000 invested<sup>1,2</sup>



## Sector Allocation



Top 5 Corporate Issuers*	(%)	Credit Quality	(%)	Green, sustainable and social bonds
New Zealand Local Govt Funding Agency	7.09	AAA	54.57	16.55% of the fund
KiwiBank	6.00	AA	19.85	<b>Duration</b>
Westpac New Zealand	5.30	A	21.07	Fund 6.03 years vs Benchmark 4.85 years
Bank of New Zealand	4.29	BBB	4.50	<b>Yield to Maturity*</b>
Christchurch City Holdings	4.18			Fund (gross) 4.59% vs Benchmark 4.07%

\* Excludes NZ central government

\* Excluding the inflation component of government inflation linked bonds

## Market Commentary

NZ bonds had a challenging month with elevated uncertainty and fiscal deficit concerns pressuring yields higher. Over the month the move higher in interest rates was the primary driver of both absolute and relative returns. The fund has been positioned with a longer duration than benchmark and moves higher in rates are unhelpful. Given the fund's yield advantage over benchmark we expect the fund to perform well when rates are stable to lower.

Interest rate moves for NZ government bonds were 1yr +10bp, 5yr +16bps, 10yr +12bps, and the longest 2054 bond +11bps. NZ Swap rates were 1yr +16bps, 5yr +25bps, 10yr +21bps.

In terms of sector performance credit was helpful supporting a higher income accrual than benchmark and NZ credit margins have continued to recover post the "Tariff tantrum" volatility in early April. NZ government bonds performed better than similar maturities of swaps which was helpful as we have been increasing our government bond holdings where benchmark-relevant.

Looking forward uncertainty remains high, the NZ economy has shown tentative signs of recovery, but the spillover of the US trade war is likely to be growth negative and deflationary. With uncertainty elevated many central banks have become less explicit in their forward guidance and instead provided a range of scenarios, also highlighting that future decisions will likely be highly data dependent. In terms of boosting activity in the NZ economy, the ability of the government to provide fiscal stimulus is limited but fortunately there is further scope for the RBNZ to lower rates if need be.

The RBNZ is well through their easing cycle but with the economy underperforming and inflation in target we expect short term rates to remain low through 2025 supporting the front of the yield curve. Longer maturity bonds have remained at elevated levels due to increased issuance pressuring term premiums higher. The curve is steep in shape and looks attractive in terms of carry-and-roll which should provide a positive contribution to returns over the medium term. NZ bond issuance (ex-governments) remains very limited which should support credit margins as demand outweighs supply.

## Fund Commentary

The fund had a negative return of 0.48% for the month and was marginally behind its benchmark the Bloomberg Composite which returned -0.38%.

The move higher in interest rates was the main driver of absolute and relative returns over the month, with the longer duration positioning unhelpful. Positives were credit margins have recovered (post widening in April) and we have increased the government bond holdings which performed better than swaps over the month. We continue to maintain a longer duration with a steep yield curve and expect carry-and-roll will support returns over the medium term.

## Key Fund Facts

<b>Distributions</b>		<b>Hedging:</b>	Any foreign currency exposure are hedged to NZD within operational range of 95%-105%	<b>Strategy Launch:</b>	October 2007
<b>Wholesale:</b>	Calendar quarter	<b>Exclusions:</b>	Controversial weapons	<b>Strategy size:</b>	\$883.2m
<b>Retail:</b>	Calendar quarter	<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) on our website <a href="https://www.nikkoam.co.nz/invest/retail">https://www.nikkoam.co.nz/invest/retail</a> .	<b>Buy / Sell spread:</b>	<a href="#">Click to view</a>
<b>Estimated annual fund changes (incl. GST)</b>					
<b>Wholesale:</b>	Negotiated outside of unit price				
<b>Retail:</b>	0.65%, refer PDS for more details				

## Compliance

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

## Contact Us

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