

# NIKKO AM NZ BOND FUND

## Monthly Fact Sheet

## 28 February 2017



### Investment objective

The objective of the Fund is to construct a portfolio of permitted investments that outperform the Fund's benchmark return by 1.0% per annum over a rolling three year period before fees, expenses and taxes.

### Benchmark

Bloomberg NZBond Govt 0+ Yr Index (from 1 July 2016)

### Fund description

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.

The Fund gains its investment exposure by investing into the Nikko AM Wholesale NZ Bond Fund which is managed by the Nikko AM NZ Fixed Income team.

### Distributions

Quarterly. Last business days of March, June, September and December.

### Management fees and other charges

A management fee of 0.60% per annum calculated as a percentage of the net asset value of the Fund will be deducted from the Fund.

Nikko AM may also recover expenses (including the Trustee fee) from the Fund up to a maximum of 0.25% per annum of the Fund's net asset value. As at the time of publication these expenses are estimated to be 0.125% per annum.

### Buy/sell spread

Nil

### Investment restrictions

Nikko AM Wholesale NZ Bond Fund

- A minimum of 25% of the wholesale fund is to be invested in securities issued or guaranteed by the New Zealand Government or securities accepted by the RBNZ's Overnight Reserve Repo Facility.
- A minimum of 50% of the wholesale fund is restricted to debt securities with a credit rating equal to or higher than New Zealand Government.
- Minimum of 95% of the wholesale fund to be invested in assets rated A- or better.
- Portfolio modified duration range of +/- 1.5 years around index duration.
- Cash and cash equivalent investments must have a minimum credit rating of Standard & Poor's A1 short-term and A long-term.

Refer to the SIPO for full details of permitted investments and restrictions.

### Performance

(NZD returns; before tax, after fees and expenses)

| 1 month | 3 months | 6 months | 1 year |
|---------|----------|----------|--------|
| 0.87%   | 0.48%    | -2.30%   | 1.73%  |

| 2 years (pa) | 3 years (pa) | 5 years (pa) | Inception (pa)* |
|--------------|--------------|--------------|-----------------|
| 3.78%        | 5.20%        | 5.02%        | 5.65%           |

\* January 2011

### Distributions

| Cents per unit | Mar  | Jun  | Sep  | Dec  |
|----------------|------|------|------|------|
| 2016           | 1.40 | 1.25 | 1.05 | 1.25 |
| 2015           | 0.90 | 1.25 | 1.15 | 1.30 |
| 2014           | 0.90 | 0.50 | 0.80 | 0.80 |
| 2013           | 1.10 | 1.25 | 1.30 | 1.25 |

## Asset allocation (% of fund)

|                         |       |
|-------------------------|-------|
| Government stock        | 27.3% |
| SOE and local authority | 19.3% |
| NZ registered banks     | 39.2% |
| Corporate debt          | 14.2% |

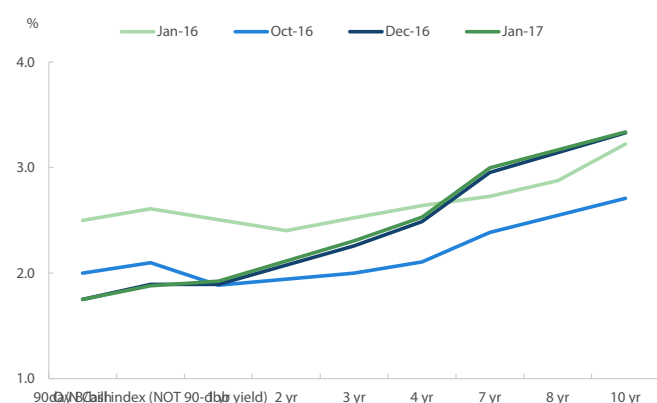
## Credit quality (% of fund)

|     |       |
|-----|-------|
| AAA | 11.3% |
| AA  | 65.4% |
| A   | 18.8% |
| BBB | 4.5%  |

## Duration and yield

|          |   |
|----------|---|
| Duration | Fund 4.14 years versus benchmark 4.45 years |
| Yield    | Fund (gross) 3.57% versus benchmark 2.61%   |

## New Zealand yield curve



## Top 5 corporate issuers (% of fund)\*

|                                    |       |
|------------------------------------|-------|
| NZ Local Government Funding Agency | 12.4% |
| Bank of New Zealand                | 8.1%  |
| Westpac Banking Corporation        | 7.3%  |
| Rabobank                           | 6.4%  |
| Fonterra Co-Operative Group        | 5.9%  |

\* excludes central government

## Commentary

The Nikko AM Wholesale NZ Bond Fund returned 0.93% for February. For the month the Bloomberg NZ Government Bond Index produced a return of 0.79% while the All Swap index returned 0.76%, and the S&P NZ Bond Corporate A Index returned 0.78%.

NZ interest rates finished lower in yield over the month. The NZ Government 2019 bond finished lower in yield by 15 basis points (2.17%), the NZ Government 2027 bond was 12 basis points lower (3.24%), and the NZ Government 2033 finished 9 basis points lower in yield (3.60%). Swap spreads to government bonds were virtually unchanged at the end of the month with the upward shape of the yield curve between the 2 and 10-year swap rates at a spread of +1.13%. NZ credit margins were stable to slightly narrower over the month although there has been limited market activity to test investor interest. A higher running yield from corporate holdings and yield curve positioning was of benefit to the Fund over the month.

The NZ economy remains in expansionary mode supported by high population growth, strong tourism and construction sectors. Rising commodity prices together with improved consumer and business sentiment, has also improved the New Zealand and global outlook.

In a recent speech, the RBNZ Governor said risks around future Official Cash Rate movements are equally weighted, reflecting balanced risks around inflation. The Bank sees the balance of risks for the global outlook to be to the downside highlighting ongoing surplus capacity and rising geo-political uncertainty. Global headline inflation has increased, partly due to rising commodity prices. Long term rates have also increased however monetary policy is expected to remain stimulatory, but less so than in the past, especially in the United States.

We are expecting a prolonged period of 'no change' in the OCR however expect the next change will be an increase. Longer term NZ Interest rates will continue to be influenced by the direction of US rates. The Trump administration will continue to be a source of surprises and the US fiscal stimulus that is expected to be delivered via tax cuts to 'middle' Americans and infrastructure spending is subject to significant implementation risk. If policy initiatives are not fully implemented the optimism currently priced into markets may well prove to be unfounded.

We do not expect large movements of interest rates in New Zealand over the near term however a reasonable amount of financial market volatility is to be expected. This volatility may open up investment opportunities in the months ahead.

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