

Nikko AM NZ Bond Strategy

Monthly Update 30 April 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

- April was a volatile month with US policy uncertainty spilling over into financial market volatility.
- Yield curve remains steep and should garner more investor interest at some stage with longer government bond trading higher than swap rates.
- NZ bond issuance remains limited which should continue to support credit margins.

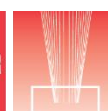
Fund Highlights

- NZ bonds had a good month with rates finishing lower after a turbulent month.
- Swap rates performed marginally better than NZ bonds.
- We expect the funds will perform well over the medium term as the cash rate continues lower and carry and roll makes a larger contribution to returns with a positive shaped yield curve.

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.)
Wholesale¹	1.16%	2.04%	9.70%	5.10%	1.27%	3.65%
Benchmark²	1.12%	1.86%	8.46%	3.93%	0.01%	2.57%
Retail³	1.11%	1.88%	8.95%	4.44%	0.67%	2.92%

1. Returns are before tax and before the deduction of fees and including tax credits (if any).
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).



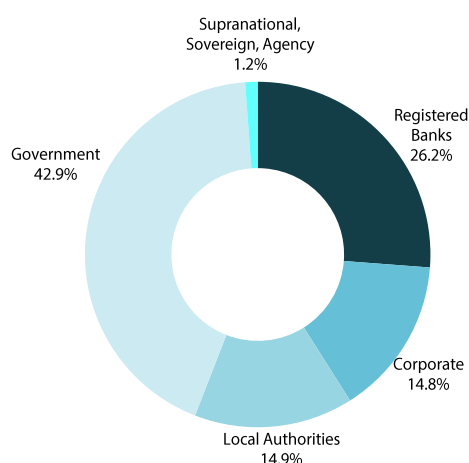
Overview

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.

Sector Allocation



Top 5 Corporate Issuers*	(%)
New Zealand Local Govt Funding Agency	7.34
Kiwibank Ltd	6.09
Westpac New Zealand Ltd	5.78
Bank of New Zealand	4.75
Dunedin City Treasury	3.75

* Excludes NZ central government

Credit Quality	(%)
AAA	56.22
AA	18.90
A	20.29
BBB	4.59

Green, sustainable and social bonds
17.14% of the fund
Duration
Fund 6.04 years vs Benchmark 4.88 years
Yield to Maturity*
Fund (gross) 4.42% vs Benchmark 3.93%

* Excluding the inflation component of government inflation linked bonds

Market Commentary

NZ bonds delivered strong positive returns for April as interest rates finished lower. There were however turbulent times during the month as US policy uncertainty spilled into financial markets causing some large swings in assets prices.

Both the NZ and US 10-year bonds traded in an approximately 60bps range spiking upwards following much higher tariffs announcements. For the fund it was more an opportunity than a headwind - we were well placed for liquidity, and took the opportunity to add some duration at cheaper levels which was helpful by month end. In a sign of quality NZ bond markets again fared better than offshore with markets, continuing to function and credit margins only marginally wider by month end. Interest rate moves for NZ government bonds were 1yr -29bp, 5yr -21bps, 10yr -13bps, and the longest 2054 bond -2bps. NZ Swap rates were 1yr -31bps, 5yr -25bps, 10yr -18bps. Swaps performed marginally better than government bonds as government bond margins widened again.

Looking forward, there remains considerable uncertainty, but the spillover of the US trade war is likely to be growth negative and deflationary for NZ. Crude Oil prices have fallen approximately 15% and the NZD has bounced around 10% from its lows as the US has become less popular in general. There is increased likelihood that the RBNZ could take the cash rate lower and stay there for longer if we see further deterioration in our data outcomes.

With short rates lower and a steep yield curve longer term bonds look attractive in terms of carry and roll and should provide a positive contribution to returns over the medium term. We like quality credit for extra yield, and we receive a higher credit margin for investing longer as well as benefiting from the steep yield curve. There has been very limited new bond issuance in the local market (ex-government bonds) and with demand outweighing supply we expect NZ credit margins to remain well supported.

Fund Commentary

The fund performed well returning 1.16% for the month versus benchmark the Bloomberg Composite which returned 1.12%.

The move lower in interest rates was the main driver of return over the month, with the longer duration positioning helpful. We did add some longer maturity bonds at better levels during the month which helped. Credit holdings widened in margin with volatility, but finished little changed by month end. NZ swaps outperformed government bonds, but the impact was relatively neutral for the fund. 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

Distributions		Hedging:	Any foreign currency exposure are hedged to NZD within operational range of 95%-105%	Strategy Launch:	October 2007
Wholesale:	Calendar quarter	Exclusions:	Controversial weapons	Strategy size:	\$873.6m
Retail:	Calendar quarter	Restrictions:	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 https://www.nikkoam.co.nz/invest/retail .	Buy / Sell spread:	Click to view
Estimated annual fund changes (incl. GST)					
Wholesale:	Negotiated outside of unit price				
Retail:	0.65%, refer PDS for more details				

Compliance

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

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