

Nikko AM NZ Bond Strategy

Monthly Update 30 June 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

- NZ bond markets had a reasonable quarter with interest rates finishing flat to lower.
- 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

- Performance has been supported by a higher fund yield from quality credit holdings.
- Credit and NZ Government bonds were the better performing sectors over the quarter.
- 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.

Performance

	One month	Three months	One year	Three years (p.a.)	Five years (p.a.)	Ten years (p.a.)
Wholesale¹	0.86%	1.54%	7.41%	5.34%	1.09%	3.57%
Benchmark²	0.69%	1.43%	6.82%	4.19%	0.06%	2.51%
Retail³	0.82%	1.38%	6.74%	4.67%	0.43%	2.84%

- 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).

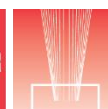
Five Year Cumulative Performance, \$10,000 invested^{1,2}



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



**Awards
2025**

**Fund Manager of the
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Nikko Asset
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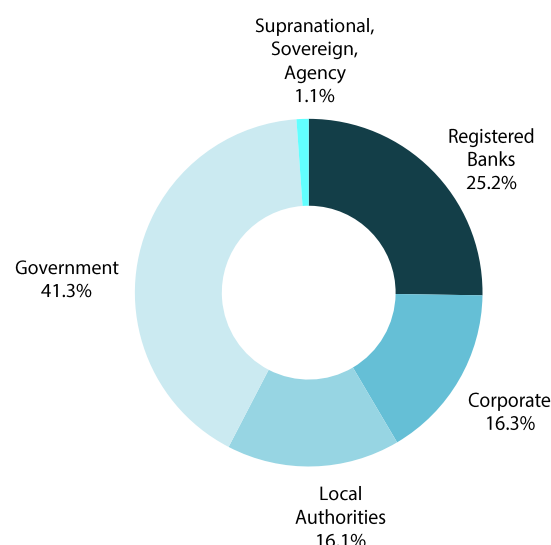
Overview

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*	(%)	Credit Quality	(%)	Green, sustainable and social bonds
New Zealand Local Govt Funding Agency	7.04	AAA	55.38	16.42% of the fund
Kiwibank	5.92	AA	19.89	Duration
Westpac New Zealand	5.18	A	20.28	Fund 5.90 years vs Benchmark 4.85 years
Bank of New Zealand	4.79	BBB	4.44	Yield to Maturity*
Christchurch City Holdings	4.15			Fund (gross) 4.49% vs Benchmark 3.99%

* Excludes NZ central government

* Excluding the inflation component of government inflation linked bonds

Market Commentary

NZ bonds had a good month in June and a reasonable quarter with yields finishing flat to slightly lower. The fund's higher income accrual supported outperformance as did the move lower in rates. The fund has been positioned with a longer duration than benchmark with a higher yield than their benchmark and we expect the fund to perform well when rates are stable to lower.

Uncertainty remains elevated but perhaps markets have become used to this? Over the quarter both bond and equity markets "bounced around" but the moves in June weren't large considering the significant geopolitical events and their potential impacts, e.g. Middle East and higher Oil prices. Over the quarter downward Interest rate moves for NZ government bonds were 1yr 25bp, 5yr 14bps, 10yr 5bps, and the longest 2054 bond 5bps. NZ Swap rates were 1yr 20bps, 5yr 9bps, 10yr 3bps.

In terms of sector performance credit recovered well (following the "tariff tantrum") and was helpful supporting a higher income accrual than benchmark. NZ government bonds performed better than similar maturities of swaps which was helpful as we have been increasing our government bond holdings, however remain underweight the government bond sector where benchmark relevant.

The NZ economic data was generally positive with a strong Terms of Trade and GDP surprising on the upside - underlining that recovery had started. Unfortunately, in terms of intentions and outlook the forward-looking surveys paint a weaker picture with some inflationary pressures, e.g.; higher energy, and fuel costs including the desire of business to raise prices (although this would be difficult with weak demand). Overall, the general view remains that the spillover of the US trade war is expected to be growth negative.

With uncertainty elevated many central banks have become less explicit in their forward guidance and highlighted that future decisions will likely be highly data dependent. In terms of boosting activity in the NZ economy, the RBNZ has talked about the lagged effects of stimulus working through the economy and they could take a pause soon, but fortunately there is further scope to lower rates if need be.

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 limited which should support credit margins as demand outweighs supply.

Fund Commentary

The fund had a positive return of 0.86% for June and 1.54% for the quarter which was marginally ahead of its benchmark the Bloomberg Composite which returned 0.69% for the month and 1.43% over the quarter.

The higher fund yield was helpful over the quarter and although bumpy from month-to-month the longer duration position was also helpful with rates lower over the quarter. NZ credit margins recovered (post widening in April) and government bond holdings were increased. The government sector outperformed similar swap maturities. 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:	\$899m
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 quarter.

Contact Us

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