

Nikko AM NZ Bond Strategy

Monthly Update 31 July 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 good month with interest rates finishing flat to lower.
- Yield curves remain steep with longer government bonds trading higher than swap rates in NZ.
- Credit margins have narrowed as supply remains limited.

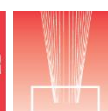
Fund Highlights

- The fund has been positioned to benefit from carry and roll. Performance has been supported by a higher fund yield from quality credit holdings and a modest decline in rates.
- Credit holdings were the better performing sector over the month.
- We expect the funds will perform well over the medium term with rates around current levels.

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	0.61%	0.99%	5.10%	4.55%	1.02%	3.49%
Benchmark²	0.50%	0.82%	4.94%	3.55%	0.03%	2.41%
Retail³	0.56%	0.83%	4.40%	3.89%	0.38%	2.76%

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.

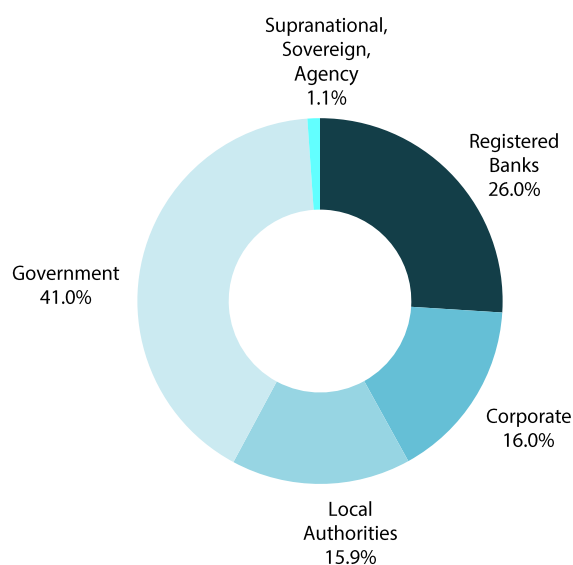
Objective

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

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



Sector Allocation



Top 5 Corporate Issuers*	(%)
New Zealand Local Govt Funding Agency	6.94
Kiwibank	5.83
Westpac New Zealand	5.55
Bank of New Zealand	5.46
Christchurch City Holdings	4.08

* Excludes NZ central government

Credit Quality	(%)
AAA	54.89
AA	20.76
A	19.98
BBB	4.38

Green, sustainable and social bonds
16.15% of the fund
Duration
Fund 5.77 years vs Benchmark 4.80 years
Yield to Maturity*
Fund (gross) 4.41% vs Benchmark 3.95%

* Excluding the inflation component of government inflation linked bonds

Market Commentary

NZ bonds had a good month in July with rates finishing slightly lower providing some capital gain, and the fund's higher income accrual also supporting outperformance. The fund has been positioned with a longer duration and with a higher yield than their benchmark and we expect the fund to perform well when rates are stable to lower.

Over the month Interest rate moves for NZ government bonds were 1yr -6bp, 5yr -4bps, 10yr -2bps, and the longest 2054 bond unchanged. NZ Swap rates were 1yr -6bps, 5yr -3bps, 10yr -3bps.

In terms of sector performance credit was the best performer with the lack of supply squeezing margins lower. Although margins have tightened, we still like quality credit that yields above 4% as reinvestment alternatives are limited and demand/supply dynamics should remain supportive. Swap rates and government bonds had a similar performance, we did see some buying of longer maturity bonds into month end. We have incrementally increased holdings of government bonds (where benchmark appropriate) and we expect this will be of benefit to fund performance over the medium term.

From a macro view rates seem to have found a holding pattern in a moderate range. The NZ economy remains weak in terms of current activity although forward expectations surveys are more positive. We are near the end of the easing cycle but the weak global outlook and domestic spare capacity implies a lower medium term inflation outlook which should allow the RBNZ to reduce the cash rate towards 2.75% if needed. We expect short term rates to remain low for some time supporting the front of the yield curve

Longer maturity bonds have remained at elevated levels due to increased government bond supply pressuring term premiums higher. The NZ curve is one of the steepest in shape and looks attractive in terms of carry and roll which should provide a positive contribution to returns over the medium term. Longer maturity bonds will likely see some support as investors look for ways to improve yield with cash rates low.

Fund Commentary

The fund had a positive return of 0.61% for July which was ahead of its benchmark the Bloomberg Composite which returned 0.50% for the month.

The fall in rates was helpful with the fund positioned approximately one year longer than benchmark. Credit holdings were the better performers as margins narrowed on the supply shortage. Swap and government bonds had a similar performance with modest declines in yield. The higher fund yield continues to support performance.

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:	\$919.5m
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.

Contact Us

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