Factsheet 28 February 2021

NIKKO AM NZ CORPORATE BOND STRATEGY

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

Market Overview

- Bonds markets were very volatile towards the end of the month.
- The NZ yield curve moved higher and steeper in yield.
- NZ credit margins were little changed despite large moves in interest rates.

Fund Highlights

- Fund returns were negative over the month as interest rates moved a lot higher in yield.
- We have reduced the fund's duration while markets remain uncertain.
- The supply and demand dynamics still appear supportive of credit and maintaining a higher fund yield.

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

Overview

The strategy aims to generate 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

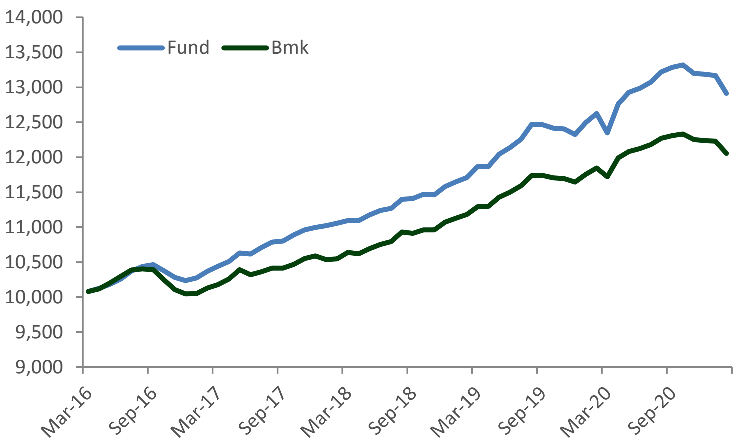
The fund aims to outperform the benchmark return by 0.70% per annum before fees, expenses and taxes over a rolling three year period.

Performance

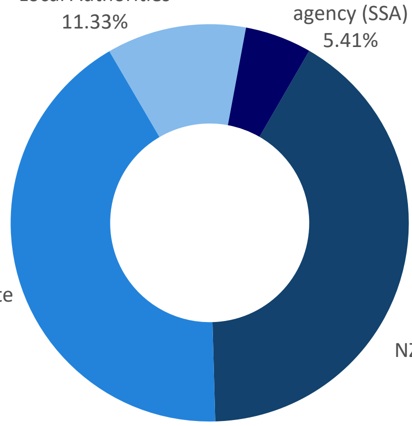
	One month	Three months	One year	Three years (p.a)	Five years (p.a)	Ten years (p.a)
Wholesale[1]	-1.94%	-2.17%	2.28%	5.32%	5.25%	6.30%
Benchmark[2]	-1.45%	-1.62%	1.75%	4.55%	3.81%	4.86%
Retail[3]	-2.00%	-2.37%	1.47%	4.50%	4.41%	5.41%
KiwiSaver[3]	-2.00%	-2.38%	1.44%			

1. Returns are before tax and before the deduction of fees.
2. Current benchmark: Bloomberg NZBond Credit 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).

Five Year Cumulative Performance, $10,000 invested[1,2]



Asset Allocation



Top 5 Corporate Issuers	%
Westpac New Zealand Ltd	8.72%
Kiwibank Ltd	6.08%
China Construct Bank Nz	5.23%
ANZ Bank New Zealand Ltd	5.19%
Fonterra Cooperative Grp	4.82%

Credit Quality (% of fund)	%
AAA	9.11
AA	35.07
A	26.84
BBB	27.74
BB	1.24

Duration
Fund 3.64 years vs Benchmark 3.11 years

Yield
Fund (gross) 1.66% vs Benchmark 1.19%

Market Commentary

The returns from NZ bonds were negative for the month of February as NZ interest rates moved much higher in yield and the slope of the curve continued to steepen.

From mid-month the trend of higher interest rates and steeper yield curves accelerated as bond markets became volatile on thin transactional volumes. The size and pace of moves were exacerbated by a lack of buying interest to offset sell flows in both NZ government bonds and swaps. The NZ bond market had been suffering more sellers than buyers with the perception that our economy is doing a lot better than the rest of the world, and inflation and economic activity would increase. Last year NZ bonds had outperformed other bonds markets so there has been some relative adjustment of interest rate levels. Additionally, adding to the pain, the Australian and US bond markets also moved higher in yield later in the month pushing NZ higher in yield again.

Unsurprisingly with large rate moves the fund’s return was driven by duration and yield curve positioning, and sector allocation had little impact, although credit margins have been fairly stable. Longer maturity bonds were the worst performers having a higher price sensitivity to interest rate moves, cash and very short maturity bonds were the only safe haven. At month end the 3-year government bond finished 32 basis points higher, the 10-year finished 79 basis points higher in yield, and the 2041 bond was 87 basis points higher in yield.

NZ bonds now look a lot cheaper however the market remains cautious after such a volatile period. We have been decreasing the fund’s duration and holdings of longer maturity bonds to help mitigate the negative impact from rising interest rates, as we want to have less risk in uncertain times. As mentioned above credit holdings should remain reasonably well supported, and a higher yield should benefit returns over time. We remain cautious, at this stage and prefer shorter maturity and mid curve bonds but will continue to reassess how to best add value and manage risks.

Fund Commentary

February was a difficult month with heightened volatility and large rises in yield. The fund underperformed the Bloomberg NZ Bond Credit benchmark over the month. The main driver of negative returns was the rise higher in interest rates and the fund’s longer duration positioning. Credit holdings continued to perform well in comparison to swaps and government bonds.

Key Fund Facts

Distributions

Wholesale fund: calendar quarter
Retail fund: calendar quarter
KiwiSaver fund: does not distribute

Estimated annual fund charges (incl. GST)

Wholesale fund: negotiated outside of unit price
Retail fund: 0.79%, refer PDS for more details
KiwiSaver fund: 0.80%, refer PDS for more details

Hedging	Buy / Sell spread:	Strategy size	Strategy Launch
All investments will be in New Zealand dollars	Click to view	$356.3m	July 2009

Compliance

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

Contact Us

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