

Factsheet 31 October 2021

NIKKO AM NZ BOND STRATEGY

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

Market Overview

- NZ interest rates moved much higher following increased inflation concerns.
- The returns for NZ bonds were negative over the month.
- Credit has remained well supported with new bond issues receiving strong demand.

Fund Highlights

- NZ Bond fund returns were negative over the month as interest moved higher along the yield curve.
- The fund has a modest long duration position.
- The supply and demand dynamics still appear supportive of credit and maintaining a higher fund yield.

Performance

	One month	Three months	One year	Three years (p.a)	Five years (p.a)	Ten years (p.a)
Wholesale ¹	-2.70%	-4.30%	-8.29%	2.57%	3.34%	4.92%
Benchmark ²	-2.88%	-4.70%	-8.78%	1.15%	2.05%	3.53%
Retail ³	-2.77%	-4.46%	-8.91%	1.83%	2.59%	4.09%

1. Returns are before tax and before the deduction of fees.
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).

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

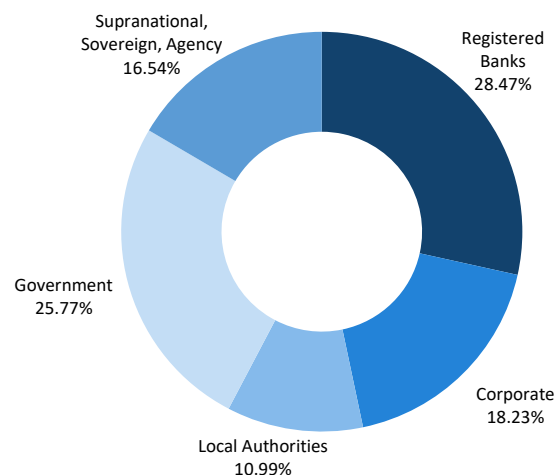
Overview

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.

Asset Allocation



Top 5 Corporate Issuers*	(%)	Credit Quality	(%)	Duration
Housing New Zealand Ltd	7.64	AAA	54.3	Fund 5.82 years vs Benchmark 5.39 years
Kommunalbanken AS	7.26	AA	19.1	Yield to Maturity
China Construction Bank NZ Ltd	5.85	A	22.0	Fund (gross) 2.53% vs Benchmark 2.38%
Kiwibank Ltd	5.48	BBB	3.0	Green, sustainability and social bonds
Asian Development Bank	4.31	BB	1.6	16.16% of the fund

*excludes NZ central government

Market Commentary

The NZ bond market performed poorly as large increases in interest rates occurred throughout October. Increased concern over inflation was the catalyst for rates to jump higher, rising rates in offshore bond markets and poor liquidity exacerbated the move higher in NZ rates along the yield curve meaning there was nowhere to hide. The 2-year government bond finished 85 basis points (bp) higher, the 5-year finished 79 bps higher in yield, and the 10-year bond and 2051 government bond were 60 bps and 14 bps higher in yield respectively. Although longer maturity bonds experienced smaller increases in yield, it is important to note that longer maturity bonds have larger changes in capital values when yields move. Swaps had a similar performance to governments. In terms of absolute returns the month was very poor with the Bloomberg Composite Index delivering a negative return of -2.88%, and the Bloomberg Corporate Index -1.90%.

Credit issues remained supported over the month with new-issue credit margins setting at the low end of the range and demand far exceeding supply. High quality 5-year corporate bonds are now yielding over 3% which has been attractive to retail investors. The other sector that performed well on a relative basis was inflation linked bonds - outperforming nominal government bonds by a reasonable margin. In terms of direction from here the market is struggling with increasing uncertainty; inflation which may remain elevated over the medium term, against the likelihood of a moderation in growth. Overall, the market still reads as more biased to a 'sell' on rallies mentality. The front of the yield curve has a lot priced in with the yield curve now very flat out to 5 years, and although it is not unusual for markets to overshoot, we would expect some buying support for the front end at these higher levels. The longer end of the yield curve is also very flat in shape, and the direction of offshore bonds will likely have a greater influence on the direction of long maturity NZ bonds.

Fund Commentary

It was a poor month with big moves in interest rates, as a result the fund had a negative return. Performance was marginally better than the Bloomberg NZ Bond Composite benchmark however the modest long duration was a negative contributor to performance. We have been mindful of investing in the better/safer parts of the yield curve which will likely be less impacted by rising rates. Yield curve positioning including a higher fund yield were positive contributors to returns however these benefits were negated by the absolute move in rates. Credit and inflation linked bonds did perform well on a relative basis to other sectors.

Key Fund Facts

Distributions		Estimated annual fund charges (incl. GST)	
Wholesale fund:	Calendar quarter	Wholesale:	Negotiated outside of unit price
Retail fund:	Calendar quarter	Retail:	0.65%, refer PDS for more detail
Hedging		Buy / Sell spread	Strategy size
All investments will be in New Zealand dollars		Click to view	\$338.7m
Strategy Launch			
October 2007			
Restrictions			
Adult entertainment, gambling, fossil fuels, alcohol stocks, tobacco stocks. For more information, please refer to the Statement of Investment Policy and Objectives (SIPO) which can be found on our website https://www.nikkoam.co.nz/invest/retail .			
Exclusions			
Securities that conduct activities listed on the Schedule to Cluster Munitions Prohibition Act 2009.			

Compliance

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

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