

Factsheet 30 November 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 lower over the month.
- The returns for NZ bonds were mostly positive over the month.
- The pipeline of new bond issuance appears to have slowed into year end.

## Fund Highlights

- The fund return was positive over the month as interest along the yield moved lower curve.
- The fund has a modest long duration position.
- Government bonds was the best performing sector. The fund is underweight Governments compared to the benchmark.
- The outlook for credit remains supportive and maintaining a higher fund yield should benefit returns.

## Performance

|                        | One month | Three months | One year | Three years (p.a) | Five years (p.a) | Ten years (p.a) |
|------------------------|-----------|--------------|----------|-------------------|------------------|-----------------|
| Wholesale <sup>1</sup> | 0.47%     | -3.01%       | -6.32%   | 2.77%             | 3.73%            | 4.80%           |
| Benchmark <sup>2</sup> | 0.74%     | -3.02%       | -6.74%   | 1.39%             | 2.48%            | 3.37%           |
| Retail <sup>3</sup>    | 0.44%     | -3.15%       | -6.93%   | 2.04%             | 2.99%            | 3.98%           |

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<sup>1&2</sup>



## 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.

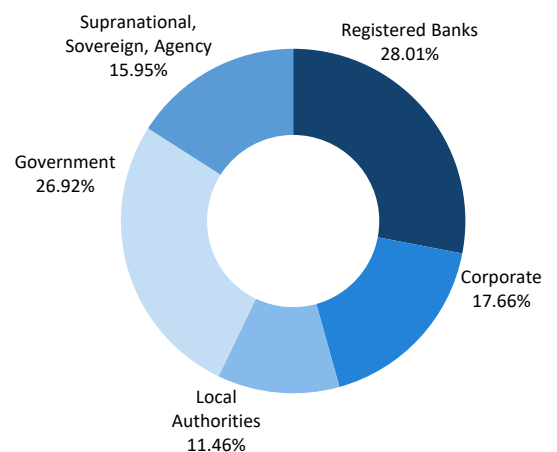
## Overview

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        | 7.36 | AAA            | 55.0 | Fund 5.56 years vs Benchmark 5.38 years       |
| Kommunalbanken AS              | 7.14 | AA             | 19.8 | <b>Yield to Maturity</b>                      |
| China Construction Bank NZ Ltd | 5.47 | A              | 20.8 | Fund (gross) 2.41% vs Benchmark 2.28%         |
| Kiwibank Ltd                   | 5.17 | BBB            | 2.9  | <b>Green, sustainability and social bonds</b> |
| Westpac New Zealand Ltd        | 4.81 | BB             | 1.5  | 15.35% of the fund                            |

\*excludes NZ central government

## Market Commentary

The NZ bond market had a better month as interest rates moved lower following some pricing reassessment after the November update from the Reserve Bank (RB). The RB acknowledged the strength of the economy, in particular strong employment and inflation has caused them to increase their OCR projections. However, interest rates subsequently fell as the market had already priced in a lot more interest rate increases than the considered steps approach the RB discussed. Following the last couple of months of ongoing moves higher in interest rates the risks may have become more balanced for interest rates into year end.

The 2-year government bond finished 23 basis points (bp) lower, the 5-year finished 16 bps lower in yield, and the 10-year bond and 2051 government bond were 18 bps and 4 bps lower in yield respectively. NZ swaps rates underperformed the move lower in rates considerably in comparison to government bonds. Swap margins widened due to a combination of one-way flow from mortgage fixing and strong buying of government bonds in shorter maturities. Credit holdings have continued to perform well. There has been some widening in NZ bank margins over the past 2 months to now be more in line with wider spreads in Australia. Looking forward, this widening should help returns as will the current demand for bonds around “the belly of the curve” (3 to 6 years in maturity). New issuance was well supported through the month although investors seem to be becoming more discerning and the last couple of deals were a little softer in demand. The New Year looks as though it should be reasonably supportive for credit with a gap in issuance over the holiday period and monies to be re-invested.

In terms of direction from here yield curves have become very flat, the market is struggling with poor liquidity, inflation - which may remain elevated over the medium term, balanced against a reasonable degree of uncertainty in a COVID world. The front of the yield curve has a lot priced in with the yield curve now very flat out to 10 years. 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 positive month as interest rates moved lower in yield. Fund performance lagged the Bloomberg NZ Bond Composite benchmark as government bonds (which make up over 64% of the benchmark) were the best performing sector and swap-based product struggled in comparison as swap margins widened over the month. Yield curve positioning, credit and inflation linked bonds all performed reasonably well. The fund has a modest long duration position, but we have been mindful of investing in the better/safer parts of the yield curve which will likely be less impacted by rising rates.

## Key Fund Facts

|   |                  |  |                                  |
|---|------------------|--|----------------------------------|
| <b>Distributions</b>  |                  | <b>Estimated annual fund charges (incl. GST)</b> |                                  |
| Wholesale fund:   | Calendar quarter | Wholesale:                                       | Negotiated outside of unit price |
| Retail fund:  | Calendar quarter | Retail:  | 0.65%, refer PDS for more detail |
| <b>Hedging</b>  |                  | <b>Buy / Sell spread</b>                         | <b>Strategy size</b>             |
| All investments will be in New Zealand dollars  |                  | <a href="#">Click to view</a>                    | \$368.8                          |
| <b>Strategy Launch</b>  |                  |  |                                  |
| October 2007  |                  |  |                                  |
| <b>Restrictions</b>   |                  |  |                                  |
| 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 <a href="https://www.nikkoam.co.nz/invest/retail">https://www.nikkoam.co.nz/invest/retail</a> . |                  |  |                                  |
| <b>Exclusions</b>   |                  |  |                                  |
| 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.

## Contact Us

[www.nikkoam.co.nz](http://www.nikkoam.co.nz) | [nzenquiries@nikkoam.com](mailto:nzenquiries@nikkoam.com)

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