

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

- Credit margins have widened modestly over the quarter however we expect credit holdings will perform well with little supply expected until the end of the NZ holiday period.
- The pipeline of new bond issuance appears to have slowed into year end.

Fund Highlights

- NZ Corporate Bond fund returns underperformed over the quarter as interest rates increased over the month of October.
- The fund has a modest long duration position.
- The outlook for credit remains supportive and maintaining a higher fund yield should benefit returns.

Performance

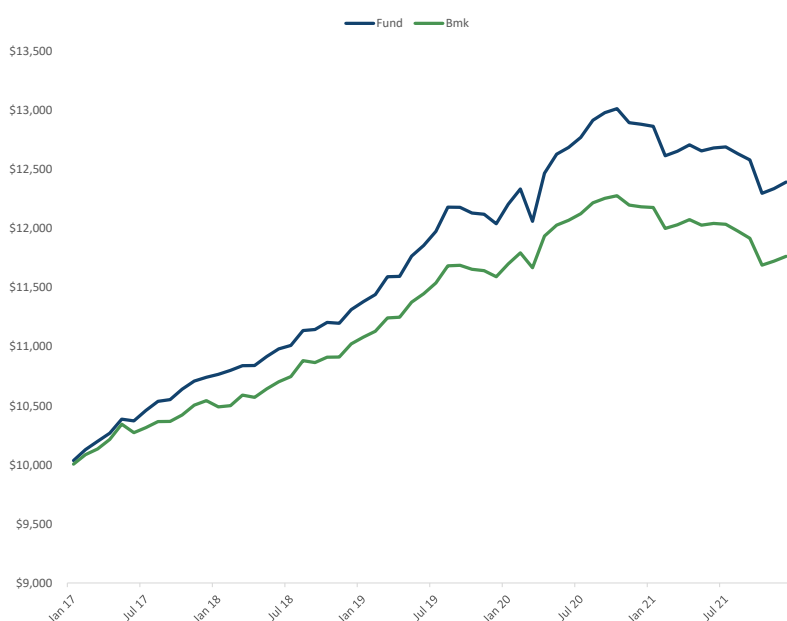
| | One month | Three months | One year | Three years (p.a) | Five years (p.a) | Ten years (p.a) |
|------------------------|-----------|--------------|----------|-------------------|------------------|-----------------|
| Wholesale ¹ | 0.45% | -1.49% | -3.79% | 3.09% | 4.39% | 5.30% |
| Benchmark ² | 0.36% | -1.28% | -3.44% | 2.19% | 3.31% | 3.58% |
| Retail ³ | 0.39% | -1.67% | -4.51% | 2.29% | 3.58% | 4.44% |
| KiwiSaver ³ | 0.37% | -1.68% | -4.60% | 2.45% | | |

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}



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.

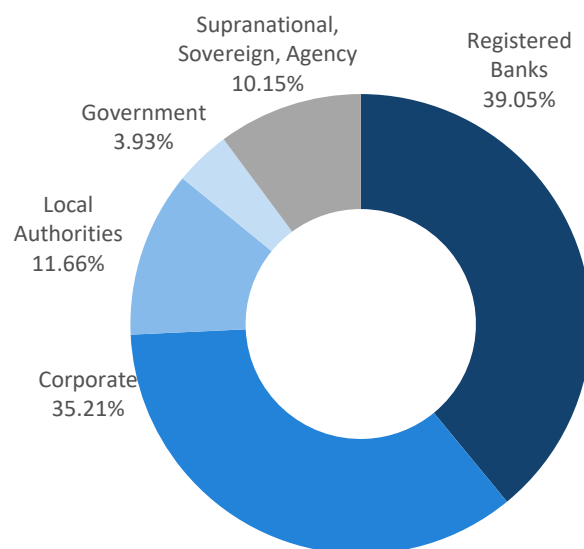
Overview

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.

Asset Allocation



| Top 5 Corporate Issuers | % | Credit Quality (% of fund) | % | Duration |
|--------------------------|-----|----------------------------|------|---|
| Westpac New Zealand Ltd | 7.4 | AAA | 22.4 | Fund 3.49 years vs Benchmark 3.11 years |
| Kiwibank Ltd | 6.5 | AA | 37.7 | Yield to Maturity |
| Bank of New Zealand Bank | 6.4 | A | 19.6 | Fund (gross) 2.74% vs Benchmark 2.53% |
| ASB Bank Ltd | 6.4 | BBB | 19.7 | Green, sustainability and social bonds |
| Housing New Zealand Ltd | 6.3 | BB | 0.6 | 16.06% of the fund |

Market Commentary

The NZ bond market had a mixed quarter. Increased concern over inflation was the catalyst for rates to jump much higher in October, and rising rates in offshore bond markets and poor liquidity exacerbated the move higher. November was positive following some pricing reassessment lower after the November update from the Reserve Bank. The bank 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 bank discussed. December was a positive month with short term rates finishing a little higher in yield while long term rates were lower. The NZ yield curve remains very flat in shape. NZ interest rate moves were reasonably volatile over December following offshore moves and with reduced liquidity locally. With no local data the US bond market that remains open through our holidays will likely be an important influence on the direction of rate moves.

From a sector perspective shorter maturity NZ swaps rates marginally outperformed similar maturities of NZ government bonds while longer maturities underperformed as swap spreads widened. Credit margins have widened modestly over the quarter and we expect credit holdings to perform well with little supply expected until the end of the NZ holiday period. The supply/demand dynamics have been supportive of NZ credit for some time, but we have a preference to sell bonds that look expensive in terms of margin and replace with bonds that offer better value and be more defensive if we get an increase in supply in 2022. In terms of sector allocation, we have a preference to invest in quality higher yielding credit as bonds priced as a margin over swap will most likely outperform low yielding government bonds over the medium term. The reduced issuance of government bonds going forward, and the possibility of NZ government bonds being included in some offshore benchmark indices is something we are mindful of as this could impact investment supply and demand dynamics. In terms of direction from here yield curves have become very flat with cash rates increases priced in, liquidity has at times been challenging; inflation may remain elevated over the medium term, balanced against an elevated degree of uncertainty in a COVID world. The fund is positioned modestly longer than benchmark, and we have been mindful of investing in securities in the better/safer parts of the yield curve should rates rise further.

Fund Commentary

The fund’s modest long duration position was a drag on returns over the quarter. This long position reduced into year-end to reduce risk as often the first quarter of the New Year is quite volatile in terms of interest rates moves. Yield curve positioning, including a higher fund yield was helpful. Large increases in interest rates over October resulted in the negative returns for the fund over the quarter returns – although it is worth noting the Bloomberg NZ Bond Credit benchmark has modest interest rate risk with a duration of 3.11 years. This duration is significantly less than many other fixed income indices.

Key Fund Facts

| | | | |
|--|--|----------------------|------------------------|
| Distributions | Estimated annual fund charges (incl. GST) | | |
| Wholesale fund: calendar quarter | Wholesale fund: negotiated outside of unit price | | |
| Retail fund: calendar quarter | Retail fund: 0.70%, refer PDS for more details | | |
| KiwiSaver fund: does not distribute | 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 | \$696m | July 2009 |
| 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 quarter.

Contact Us

www.nikkoam.co.nz | nzenquiries@nikkoam.com

This document is issued by Nikko Asset Management New Zealand Limited (Company No. 606057, FSP No. FSP22562), the investment manager of the Nikko AM NZ Investment Scheme, the Nikko AM NZ Wholesale Investment Scheme and the Nikko AM KiwiSaver Scheme. This material has been prepared without taking into account a potential investor’s objectives, financial situation or needs and is not intended to constitute personal financial advice, and must not be relied on as such. Recipients of this document, who are not wholesale investors (in accordance with Schedule 1, Clause 3 Financial Markets Conduct Act 2013), or their duly appointed agent, should consult a Financial Advice Provider and the relevant Product Disclosure Statement. Past performance is not a guarantee of future performance. While we believe the information contained in this presentation is correct at the date of presentation, no warranty of accuracy or reliability is given and no responsibility is accepted for errors or omissions including where provided by a third party. For full details on the retail and KiwiSaver funds, please refer to the relevant Product Disclosure Statement on nikkoam.co.nz.