Factsheet 28 February 2022

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

- Bond markets have been volatile with increased uncertainty.
- The shape of the yield curve is very flat.
- There have been some new bond issues at wider credit margins.

Fund Highlights

- NZ bond fund returns were negative over the month due to rising yields.
- The fund's duration has been positioned close to benchmark.
- Credit margins have been under modest pressure with risk off environment.

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.

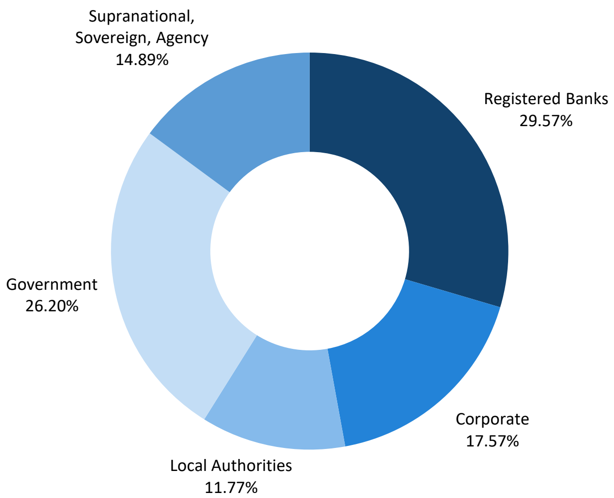
Performance

	One month	Three months	One year	Three years (p.a)	Five years (p.a)	Ten years (p.a)
Wholesale[1]	-0.69%	-0.91%	-3.22%	1.66%	3.40%	4.66%
Benchmark[2]	-0.75%	-1.13%	-3.75%	0.30%	2.20%	3.22%
Retail[3]	-0.75%	-1.07%	-3.83%	0.94%	2.67%	3.85%

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]

Asset Allocation



Top 5 Corporate Issuers*	(%)
Westpac New Zealand Ltd	8.70
Housing New Zealand Ltd	7.87
Kommunalbanken AS	6.63
Kiwibank Ltd	4.84
China Construction Bank NZ Ltd	4.54

*excludes NZ central government

Credit Quality	(%)
AAA	53.5
AA	23.4
A	19.0
BBB	2.7
BB	1.4

Duration
Fund 5.29 years vs Benchmark 5.19 years
Yield to Maturity
Fund (gross) 2.84% vs Benchmark 2.70%
Green, sustainability and social bonds
15.85% of the fund

Market Commentary

NZ bond returns were negative in February due to rising interest rates. Financial markets remained volatile as uncertainty escalated. The bond markets have been jostled by the “tug of war” between concern over inflation and rising cash rates versus heightened geopolitical concerns and the possibility of slower growth. Unfortunately, it looks like “there is still a fair amount of wood to chop” before the situation improves.

The NZ 2-year government bond finished 24 basis points higher, the 5-year finished 22 basis points higher, and the 10-year bond and 2051 government bond were 18 bps, and 13 bps higher in yield respectively. Swap rates widened slightly to governments which was unhelpful.

The bond fund has been positioned closer to benchmark duration as we have wanted to have less risk. Duration has varied between slightly short to slightly long since 2021 year-end and we have added some value as bonds have moved within the range. At the OCR update the RBNZ again increased their rate hike projections, and yields went higher on the day. Dare we say it, there is a lot priced in for higher interest rates in an uncertain world. The Reserve Bank sees neutral as around 2-2.5% but we question if cash rates above 3% should be priced in already.

Fund Commentary

The fund had a negative monthly return due to rising interest rates. Fund performance was in line with the Bloomberg NZ Bond Composite benchmark. The reduction in duration positioning was helpful, and we added some value through trading the range. Credit holdings have widened marginally as has swap. Inflation linked bonds performed well.

We have been reluctant to chase yield through investing in longer maturity bonds while both the swap and government curves have been so flat. We prefer to invest around 5 years in maturity and opportunistically seek to add some value when longer maturity bonds are cheap/expensive in the range. From a sector allocation perspective, we achieve a high yield from credit and holding inflation linked government bonds where appropriate. We have only participated in one new bond issue this year (Westpac 5 year at 3.7%) and have been awaiting the best opportunities as the risk is to a moderate widening in credit margins. Overall, our credit duration has reduced and a gradual recycle into new deals at better margins is our plan. With asset prices under pressure, we continue selling bonds that look expensive and switching into more defensive/liquid holdings.

Key Fund Facts

Distributions

Wholesale fund: Calendar quarter
Retail fund: Calendar quarter

Estimated annual fund charges (incl. GST)

Wholesale: Negotiated outside of unit price
Retail: 0.65%, refer PDS for more detail

Hedging	Buy / Sell spread	Strategy size	Strategy Launch
All investments will be in New Zealand dollars	Click to view	$386.4m	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.

Contact Us

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