

Factsheet 30 April 2023

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

- NZ bonds had a positive month as interest rates moved lower.
- We are close to the end of the hiking cycle but there is still considerable uncertainty around inflation and the economy.
- NZ credit margins remain supported.

Fund Highlights

- Fund returns finished positive helped by a move lower in interest rates.
- We want to maintain a higher yield and participate in gains if rates move lower.
- The fund has been positioned close to benchmark/slightly long duration.

Performance

	One month	Three months	One year	Three years (p.a)	Five years (p.a)	Ten years (p.a)
Wholesale ¹	0.76%	1.18%	3.16%	-0.47%	2.55%	4.10%
Benchmark ²	0.75%	1.23%	3.03%	-0.73%	2.01%	2.78%
Retail ³	0.69%	0.98%	2.44%	-1.02%	1.78%	3.27%
KiwiSaver ³	0.67%	0.97%	2.42%	-1.06%	2.01%	

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).

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.

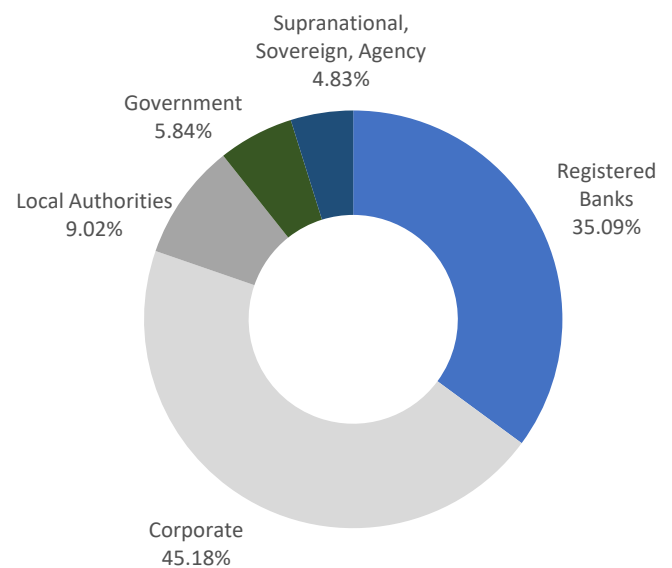
Objective

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

Five Year Cumulative Performance, \$10,000 invested^{1,2}



Asset Allocation



Top 5 Corporate Issuers*	%	Credit Quality (% of fund)	%	Green, sustainable and social bonds
Housing New Zealand Ltd	9.6	AAA	27.1	18.44% of the fund
Westpac New Zealand Ltd	8.7	AA	30.0	Duration
ASB Bank Ltd	8.1	A	14.4	Fund 3.24 years vs Benchmark 2.96 years
China Construction Bank NZ Ltd	5.0	BBB	28.4	Yield to Maturity*
Kiwibank Ltd	4.9			Fund (gross) 5.56% vs Benchmark 5.39%

*Includes cash held by custodian

* Excluding the inflation component of government inflation linked bonds

Market Commentary

NZ bonds had a positive return in April as interest rates moved lower providing some capital gain. In terms of sector performance government bonds had a catch-up from past months, performing better than similar maturities of swap. Inflation linked bonds had a good month (we hold the short maturity 2025 linkers), and credit continues to remain stable in terms of margin adding value through a higher yield. The demand/supply dynamics from retail continue to be a key driver for credit.

We want to maintain a higher yield and participate in gains if rates move lower. The fund has been moving towards a “barbell” curve position, holding higher yielding short maturity bonds, less mid curve and adding longer maturity bonds on opportunities when rates are higher in the range.

We think the front of the yield curve will be the highest yielding part of the curve for the longest. The RBNZ is near the end of their hiking cycle, but they won’t want rates lower until they are confident inflation is under control. Inflation and growth are slowing albeit at a slower pace than they would like, and its likely short rates may need to be higher for longer. There is a risk this may drag the mid curve higher. The longer end of the curve is inverted pricing - a slowing in activity and will likely follow the data. The long end is complicated as we give up yield investing longer, but there is the potential for greater capital gains from longer maturity bonds if rates move lower.

The caveat to the yield curve positioning above is that market uncertainty remains elevated and moves have at times been large. It has been a market where more value is added through patience and awaiting opportunities to be active in duration rather than a long-term macro set-and-forget view. In uncertain times we generally keep positioning modest relative to benchmark. We have added value through adding/subtracting duration when interest rates looked mispriced relative to our expectations.

In the meantime, we will look for the most consistent ways to add value and prefer a high portfolio yield through holding more high-quality credit and less government bonds. We will add/subtract duration as opportunities arise.

Fund Commentary

The fund return was positive and performance in line with the Bloomberg NZ Corporate Bond benchmark for the month. The move lower in interest rates was the main driver of absolute returns. A modest long duration position versus benchmark was helpful. On sector allocation inflation linked bonds performed well, also credit margins were stable and helped with a higher yield. We continue to sell bonds that look expensive relative to their credit rating and replace with bonds that we believe will likely perform better over the medium term. We will likely move towards a barbell in terms of duration positioning at some stage. The fund continues to maintain a higher yield from holding credit issues and inflation linked government bonds in preference to lower yielding nominal government bonds, and we continue to believe this should benefit returns over the medium term.

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: 0.70%, refer PDS for more details
KiwiSaver fund: 0.80%, refer PDS for more details

Hedging

Any foreign currency exposure to be hedged to NZD within operational range of 97.5%-102.5%

Buy / Sell spread:

[Click to view](#)

Strategy size

\$498.6m

Strategy Launch

July 2009

Exclusions: controversial weapons.

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>.

Compliance

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

Contact Us

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

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