

Factsheet 31 January 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

- The year started with rising yields.
- The shape of the yield curve flattened.
- There was little new bond issuance and transaction volumes were low.

Fund Highlights

- NZ Bond fund returns were negative over the month due to rising yields.
- We had reduced duration close to benchmark to protect value.
- Credit should remain supported, but we have favoured defensive holdings.

Performance

	One month	Three months	One year	Three years (p.a)	Five years (p.a)	Ten years (p.a)
Wholesale ¹	-0.90%	0.25%	-5.92%	2.10%	3.74%	4.64%
Benchmark ²	-0.86%	0.35%	-6.10%	0.73%	2.52%	3.20%
Retail ³	-0.96%	0.11%	-6.52%	1.39%	3.00%	3.82%

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.

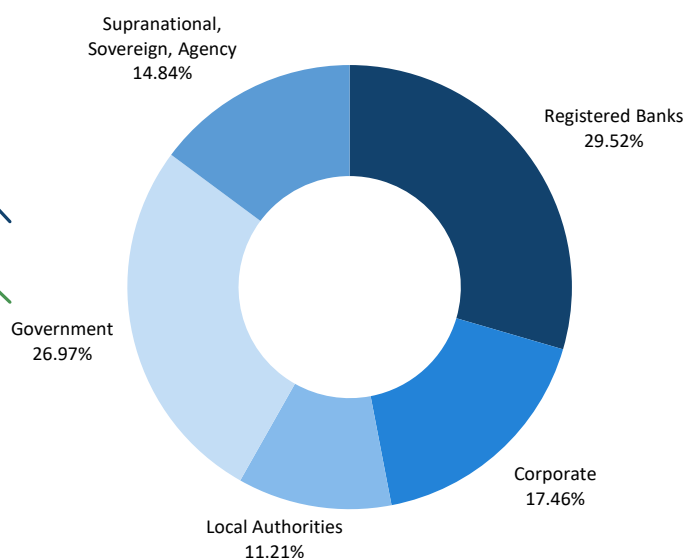
Overview

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	7.86	AAA	54.2	Fund 5.24 years vs Benchmark 5.28 years
Westpac New Zealand Ltd	6.80	AA	22.3	Yield to Maturity
Kommunalbanken AS	6.62	A	19.4	Fund (gross) 2.55% vs Benchmark 2.5%
China Construction Bank NZ Ltd	5.13	BBB	2.7	Green, sustainability and social bonds
Kiwibank Ltd	4.84	BB	1.4	15.30% of the fund

*excludes NZ central government

Market Commentary

The year of the Tiger brought a challenging start for both bond and equity markets as the prospect of central banks raising cash rates weighed heavily on markets. The US 10-year bond was at times volatile and NZ bonds followed to a degree with the yield curve finishing January both higher and flatter in shape with shorter maturities rising more than longer maturity bonds. NZ bond returns were negative for the month although it was helpful that the funds duration was shortened. The NZ 2-year government bond finished 18 basis points higher, the 5-year finished 22 basis points higher, and the 10-year bond and 2051 government bond were 20 bps, and 9 bps higher in yield respectively for January. Swap rates generally followed governments, apart from the 2 year and 20+ year rates which underperformed governments by around 10 basis points. Credit had a good month with margins tighter following some previous margin widening into year end and a general shortage of supply. A potential challenge for credit will be when we start getting new issuance and if this comes at wider margins closer to Australian levels. With asset prices under pressure, we have been opportunistically selling bonds that look expensive and switching into more defensive holdings.

In terms of the direction of NZ interest rates inflation and employment data has been strong (and likely to remain strong), and rates briefly made new highs in January. At the same time there is still a high degree of uncertainty for growth and a lot already priced in for cash rate increases, although the market keeps pricing more. At some stage there will be an overshoot and offer good buying. The funds are currently positioned closer to benchmark, and in simple terms we will try to maintain a higher yield and add some value while bonds remain in a range; i.e. buy and add duration at higher yields and sell on moves lower. We have been mindful of investing in the better/safer parts of the yield curve should rates rise, and credit holdings are in names that should remain in demand and have good liquidity if we do have periods of heightened volatility.

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 into year-end was helpful, and credit holdings performed well as credit margins narrowed with limited supply over the holiday period. Shorter maturity bonds had larger increases in yield than longer maturities. Yield curve positioning, and inflation linked bonds all performed reasonably well.

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	\$393.3m
Restrictions		Strategy Launch	
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 .		October 2007	
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

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

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