Factsheet 31 March 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 and moved a lot higher in yield over March month and the quarter.
- The shape of the yield curve is very flat.
- New bond issues at wider credit margins received strong demand in March.

## Fund Highlights

- NZ Bond fund returns were negative due to rising yields.
- The funds duration has been positioned close to benchmark.
- Credit margins have been under modest pressure.

## 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.

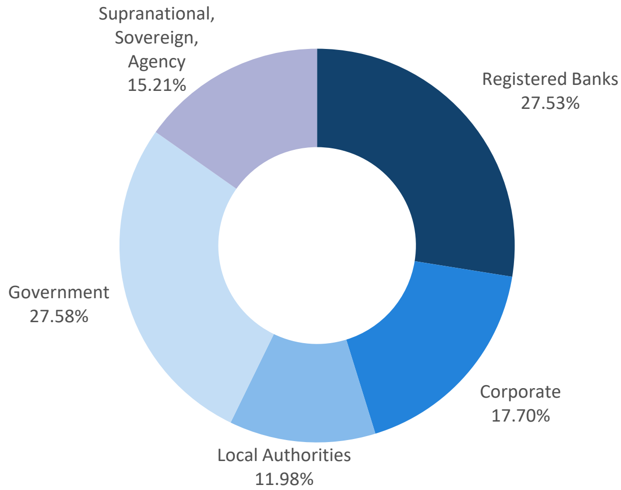
## Performance

| | One month | Three months | One year | Three years (p.a) | Five years (p.a) | Ten years (p.a) |
|---|---|---|---|---|---|---|
| Wholesale[1] | -2.02% | -3.58% | -5.70% | 0.43% | 2.85% | 4.34% |
| Benchmark[2] | -2.04% | -3.62% | -6.28% | -0.88% | 1.68% | 2.96% |
| Retail[3] | -2.07% | -3.74% | -6.31% | -0.26% | 2.12% | 3.54% |

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 | 7.97 |
| Kommunalbanken AS | 6.76 |
| Kiwibank Ltd | 4.85 |
| China Construction Bank NZ Ltd | 4.51 |

*excludes NZ central government

| Credit Quality | (%) |
|---|---|
| AAA | 55.3 |
| AA | 22.4 |
| A | 17.7 |
| BBB | 2.7 |
| BB | 1.9 |

| Duration |
|---|
| Fund 5.29 years vs Benchmark 5.06 years |
| **Yield to Maturity** |
| Fund (gross) 3.35% vs Benchmark 3.21% |
| **Green, sustainability and social bonds** |
| 16.09% of the fund |

## Market Commentary

March was a very poor month and quarter for bonds. Financial markets have been volatile and have experienced outsized moves as central banks signalled intentions to move cash rates higher and faster to combat inflation. The moves in global bonds yields have weighed heavily on NZ and lack of local buyside flow has exacerbated the pace and quantum of moves higher across the curve. Over the month and (quarter) the NZ 2-year government bond finished 53(94) basis points (bps) higher, the 5-year finished 47(91) bps higher, and the 10-year bond and 2051 government bond were 45(85) bps, and 34(55) bps higher in yield respectively. The yield curve has become very flat with short term bonds rising more in yield than longer bonds in what is termed a “bear flattening”, creating a difficult environment for bond returns. From a NZ sector perspective, governments have been the better performers with inflation linked bonds a standout on a relative basis. Swap margins have expanded slightly relative to similar maturities of governments. NZ credit margins have had a modest widening over the quarter but performed much better than offshore. There has been strong demand for new issues of mid curve bonds as this has been viewed as a “safer/better” place to invest with rising rates and a flat curve. Over history, flat or inverted yields curves have been viewed as a potential harbinger of slowing growth and risk of a policy mistake with cash rates going too high too fast. Dare we say it, there is a lot priced in for higher interest rates to fight inflation at the cost of growth?

## Fund Commentary

The fund has been positioned close to benchmark duration as we have wanted to have less risk in uncertain times. 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. The fund achieves a high yield from credit and holds inflation linked government bonds which should benefit returns. The duration of our credit had reduced, and a gradual recycle into new deals at better margins is our plan. We also continue selling bonds that look expensive and switching into more defensive/liquid holdings.

The fund had a negative monthly and quarterly 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 margins widened slightly as has swap margins. Inflation linked bonds performed well.

## 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 | $368.5m | 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 quarter.

## Contact Us

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