

Factsheet 31 March 2022

# 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

- 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 have received strong demand in March.

## Fund Highlights

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

## Performance

	One month	Three months	One year	Three years (p.a)	Five years (p.a)	Ten years (p.a)
Wholesale <sup>1</sup>	-1.41%	-2.52%	-4.53%	1.39%	3.44%	4.95%
Benchmark <sup>2</sup>	-1.45%	-2.46%	-4.61%	0.69%	2.52%	3.39%
Retail <sup>3</sup>	-1.47%	-2.68%	-5.21%	0.62%	2.65%	4.11%
KiwiSaver <sup>3</sup>	-1.45%	-2.66%	-5.25%	0.72%		

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<sup>1,2</sup>



## 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.

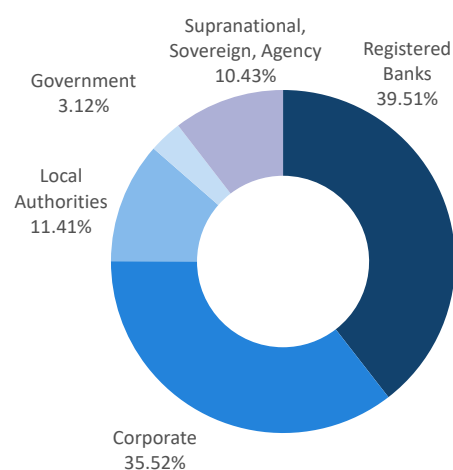
## Overview

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	9.5	AAA	20.1	Fund 3.48 years vs Benchmark 3.1 years
Kiwibank Ltd	6.8	AA	38.6	<b>Yield to Maturity</b>
ASB Bank Ltd	6.6	A	18.5	Fund (gross) 3.78% vs Benchmark 3.64%
Housing New Zealand Ltd	6.4	BBB	21.6	<b>Green, sustainability and social bonds</b>
Bank of New Zealand	5.2	BB	1.2	17.19% 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 buy-side 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 as bonds yields moved within a range and we try to take advantage of these movements. The fund achieves a high yield from credit and in addition the fund has been holding 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 month and quarter as interest rates increased over the month and quarter. It helped that we had reduced duration. Fund performance was in line with the Bloomberg NZ Bond Credit benchmark over the month. Credit margins widened slightly as did swaps margins which was unhelpful for returns.

## Key Fund Facts

<b>Distributions</b>	<b>Estimated annual fund charges (incl. GST)</b>		
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	
<b>Hedging</b>	<b>Buy / Sell spread:</b>	<b>Strategy size</b>	<b>Strategy Launch</b>
All investments will be in New Zealand dollars	<a href="#">Click to view</a>	\$645.7m	July 2009
<b>Restrictions</b>			
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 <a href="https://www.nikkoam.co.nz/invest/retail">https://www.nikkoam.co.nz/invest/retail</a> .			
<b>Exclusions</b>			
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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