

Factsheet 30 June 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 had large fluctuations in rates through June.
- The shape of the swap yield curve remains flat, and the government curve steep.
- New issuance has been modest supporting credit performance.

Fund Highlights

- NZ bond fund returns finished relatively muted after large fluctuations in interest rates intra month.
- The fund's duration was extended during the month.
- The addition of some longer maturity bonds was helpful for yield curve positioning.

Performance

	One month	Three months	One year	Three years (p.a)	Five years (p.a)	Ten years (p.a)
Wholesale ¹	-0.49%	-2.35%	-8.12%	-1.08%	2.04%	3.75%
Benchmark ²	-0.65%	-2.37%	-8.58%	-2.24%	0.92%	2.31%
Retail ³	-0.53%	-2.49%	-8.70%	-1.75%	1.32%	2.96%

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.

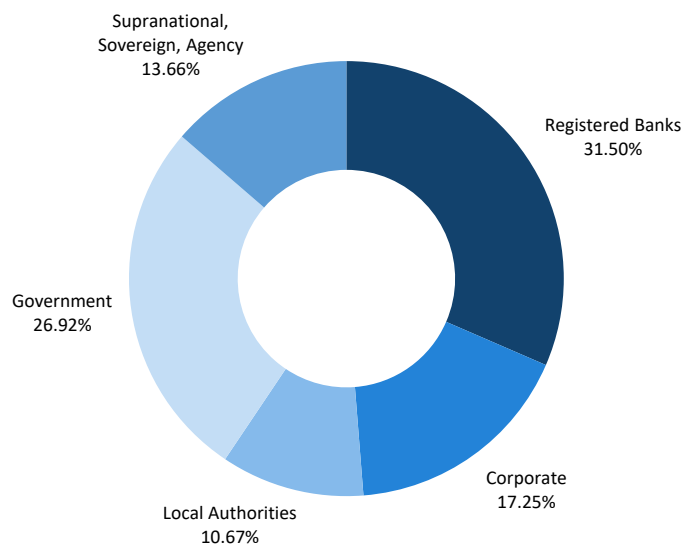
Overview

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
Westpac New Zealand Ltd	9.83	AAA	51.8	Fund 5.09 years vs Benchmark 4.8 years
Housing New Zealand Ltd	7.84	AA	27.0	Yield to Maturity
ASB Bank Ltd	5.71	A	16.6	Fund (gross) 4.1% vs Benchmark 3.9%
Kommunalbanken AS	5.31	BBB	2.6	Green, sustainability and social bonds
Kiwibank Ltd	5.11	BB	2.0	17.20% of the fund

*excludes NZ central government

Market Commentary

It has remained a difficult environment for bond returns with heightened volatility. The market continues to switch focus between being concerned about high inflation and hawkish central banks versus the risk of recession when trying to determine where interest rates should be. However there have been opportunities to add value with interest rates moving in both directions from May, rather than just higher. April was disappointing month. NZ Interest rates remained under pressure as offshore bonds marched higher in yield, and the local market continued to price faster and larger increases in the cash rate by the RBNZ. May was the first reasonable move lower in NZ bond yields this year, mid curve bonds finished the month lower in yield, while short and longer maturity bonds were higher. The month of June saw very large fluctuations in interest rates with year 2022 highs in yields occurring mid-month, followed by an approximately 50 basis point fall into month end. Over the quarter the 1-year government bonds finished 83bps (basis points) higher, the 2-year 59 bps higher, the 5-year finished 55 bps higher, and the 10-year bond and 2051 government bond were 62 bps higher, and 43 bps higher in yield respectively. The swap curve remains very flat and the government bond curve is quite steep making government bonds a more attractive way to add duration along the curve. From a sector perspective Inflation Linked Government bonds performed well over the quarter as a whole however underperformed over the month of June. Credit issues performed well as after some weakness credit margins contracted with strong demand emerging as rates moved higher. We think that some lower rated bonds look expensive on a relative basis and continue to sell those that look expensive in terms of credit margin.

Fund Commentary

The fund had a negative quarter due to rising yields. Performance was in line with the Bloomberg NZ Bond Composite benchmark. Credit holdings saw some widening in margins early in the quarter however subsequently margins recovered some lost ground. The credit sector continued to enhance the portfolio yield which incrementally added to returns. Exposure to 2025 Inflation linked bonds added value over the quarter however had a rare underperformance over June. Swap margins contracted relative to similar maturities of governments and was helpful as the fund generally holds less government bonds and more high-grade credit which is priced as a margin above swap. We extended the fund duration mid-June following a spike higher in yields, this proved beneficial as yields subsequently moved lower into month end. The fund achieves a high yield from credit and holding inflation linked government bonds which should benefit returns over the medium term. A gradual recycle into new bond issues at higher interest rate levels is our plan and we continue selling bonds that look expensive and switching into more defensive/liquid holdings. We added ASB and BNZ 5-year bonds and some longer maturity bonds mid-month which extended duration and has been helpful for returns. The ASB was issued at 5.52% on 15 June and is now trading around 4.7%. We remain cautious on fund positioning in terms of interest rate risk while a large degree of uncertainty remains, however there have been opportunities to add value with interest rates moving in both directions, rather than just higher. We are happy to continue to add quality mid-curve bonds at yields around 5% as we believe they will perform well over the medium term. Although the cash rate will go higher in the near-term, growth concerns are increasing as higher rates increase the probability of an economic slowdown which in turn will limit how high bond yields can go.

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	\$359m
Strategy Launch			
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, except that the fund was 0.1% outside its range for BBB and below investments at month end, this was rectified on 10 May.

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

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