

Factsheet 31 August 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 market yields pushed higher from mid-August unwinding falls in July.
- The swap curve is inverted from 2 to 10 years, and government curve slightly positive.
- New issuance has been modest supporting credit sector performance.

Fund Highlights

- NZ bond fund returns were negative as rates moved higher in yield.
- The fund duration is modestly longer than benchmark which was a negative for the month.
- Credit and swap outperformed lower yielding government bonds.

Performance

	One month	Three months	One year	Three years (p.a)	Five years (p.a)	Ten years (p.a)
Wholesale ¹	-1.48%	0.33%	-5.06%	-0.51%	2.62%	4.43%
Benchmark ²	-1.35%	0.32%	-4.81%	-0.81%	1.92%	2.85%
Retail ³	-1.52%	0.17%	-5.71%	-1.24%	1.85%	3.59%
KiwiSaver ³	-1.47%	0.15%	-5.70%	-1.25%	-	-

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.

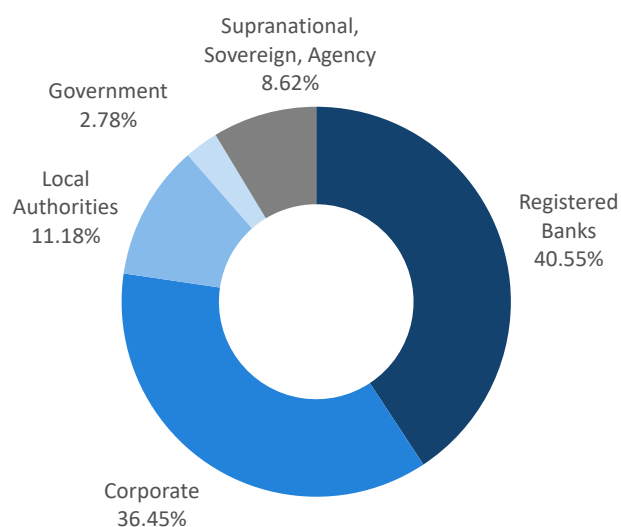
Objective

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)	%	Duration
Westpac New Zealand Ltd*	10.6	AAA	18.1	Fund 3.46 years vs Benchmark 2.99 years
ASB Bank Ltd	8.9	AA	40.0	Yield to Maturity
Kiwibank Ltd	7.7	A	15.7	Fund (gross) 4.79% vs Benchmark 4.63%
Housing New Zealand Ltd	6.4	BBB	25.0	Green, sustainability and social bonds
Dunedin City Treasury	4.9	BB	0.7	20.30% of the fund

*Includes cash held by custodian

Market Commentary

The month of August was poor for NZ bond returns as interest rates moved quite a lot higher unwinding falls in yield from July. The move higher in interest rates was the key driver of negative returns. Otherwise, the performance difference across government and swap sectors was relatively muted with credit and swaps a modest outperformer versus government bonds. Credit spreads remained stable.

The move higher in NZ rates was consistent along the yield curve. The 1-year government bond yield finished 50 bps (basis points) higher, the 2-year 55 bps higher, the 5-year finished 57 bps higher, and the 10-year bond and 2051 government bond were 52 bps higher, and 55 bps higher in yield respectively. Interest rates have already moved a lot higher this year and it remains difficult to forecast what is going to dominate the direction of bond markets in the short term. Investor focus continues to swing from being concerned about high inflation to concern about the negative impact tightening monetary conditions may have on growth. And in a stagflation environment both are valid concerns that could push rates either higher or lower in yield. At the same time volatility has remained choppy this year with low trading volumes exacerbating moves in interest rates and this is likely to remain so in the near term.

The RBNZ is one of the most advanced central banks in terms of tightening cycle, and with most major central banks projecting terminal cash rates around 4%, we may be close to peak cash rate expectations already. How long short rates remained elevated is uncertain, and the fate of longer-term bond rates are likely to remain much more heavily influenced by offshore direction. In this environment it makes sense to not have too much risk to the direction of interest rate moves. NZ bonds can generate reasonable returns over the medium term as there is plenty of yield available through purchasing quality credit rather than going longer on a flat yield curve. We continue to look to add value within the interest rate range; and reducing risk where bonds look expensive and adding bonds that we believe will have a higher likelihood of adding value.

Fund Commentary

The fund had a negative return as yields moved higher in August. Performance was slightly behind the Bloomberg NZ Corporate Bond benchmark. Credit holdings continued to perform well with a higher yield accruing to the portfolio and a mild contraction in swap and credit margins. We trimmed some of our inflation linked bond holding which had a volatile month as the Debt Management Office issued a new 2035 maturity bond and repurchased some 2025 bonds. The modest long duration position was unhelpful this month as yields moved higher.

The fund achieves a higher than index yield from holding credit issues and holding inflation linked government bonds and we continue to believe this should benefit returns over the medium term. A gradual recycle into new deals at higher levels is our plan. We continue to sell bonds that look expensive and switching into bonds that in our view have a good chance of delivering acceptable future returns.

Key Fund Facts

Distributions	Estimated annual fund charges (incl. GST)		
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		
Hedging	Buy / Sell spread:	Strategy size	Strategy Launch
Any foreign currency exposure to be hedged to NZD within operational range of 97.5%-102.5%	Click to view	\$578.5m	July 2009
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 month.

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

This document is issued by Nikko Asset Management New Zealand Limited (Company No. 606057, FSP No. FSP22562), the investment manager of the Nikko AM NZ Investment Scheme, the Nikko AM NZ Wholesale Investment Scheme and the Nikko AM KiwiSaver Scheme. This material has been prepared without taking into account a potential investor's objectives, financial situation or needs and is not intended to constitute personal financial advice, and must not be relied on as such. Recipients of this document, who are not wholesale investors (in accordance with Schedule 1, Clause 3 Financial Markets Conduct Act 2013), or their duly appointed agent, should consult a Financial Advice Provider and the relevant Product Disclosure Statement. Past performance is not a guarantee of future performance. While we believe the information contained in this presentation is correct at the date of presentation, no warranty of accuracy or reliability is given and no responsibility is accepted for errors or omissions including where provided by a third party. For full details on the retail and KiwiSaver funds, please refer to the relevant Product Disclosure Statement on nikkoam.co.nz.