

Factsheet 31 March 2023

# 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

- NZ bonds finished on a positive note after a volatile quarter.
- There is still considerable uncertainty around economies and inflation as evidenced by how reactive markets have been.
- NZ credit remained stable despite offshore ructions.

## Fund Highlights

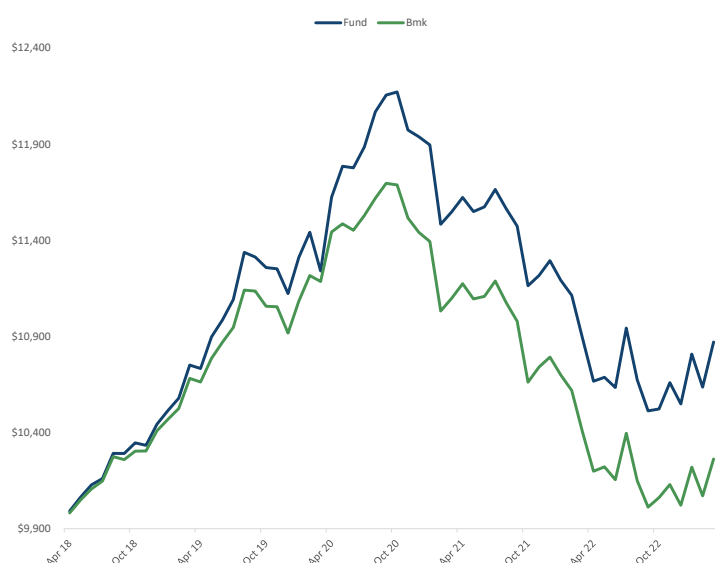
- Fund returns finished positive for the quarter after swings up and down in interest rates.
- We have added value through duration and a higher fund yield.
- The fund finished March positioned close to benchmark duration.

## Performance

	One month	Three months	One year	Three years (p.a)	Five years (p.a)	Ten years (p.a)
Wholesale <sup>1</sup>	2.21%	3.06%	-0.17%	-1.11%	1.68%	3.45%
Benchmark <sup>2</sup>	1.90%	2.40%	-1.34%	-2.83%	0.52%	2.19%
Retail <sup>3</sup>	2.16%	2.90%	-0.79%	-1.75%	0.99%	2.68%

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<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.

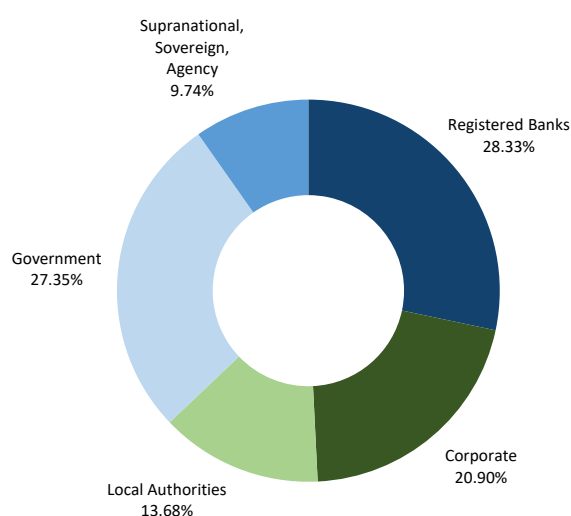
## Overview

The 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	(%)	Green, sustainable and social bonds
Housing New Zealand Ltd	7.96	AAA	55.6	21.52% of the fund
New Zealand Local Govt Funding Agency	7.85	AA	25.0	<b>Duration</b>
ASB Bank Ltd	7.42	A	16.0	Fund 4.75 years vs Benchmark 4.35 years
Westpac New Zealand Ltd	6.57	BBB	3.5	<b>Yield to Maturity*</b>
Kiwibank Ltd	5.53			Fund (gross) 4.81% vs Benchmark 4.77%

\*excludes NZ central government

\* Excluding the inflation component of government inflation linked bonds

## Market Commentary

The month of March closed the quarter on a positive note with interest rates lower, but NZ bond returns were up and down from month to month. In short, January was a good month for returns as yields fell and February poor as the market repriced higher rates for longer and interest rates rebounded.

Movements in interest rates have been the main driver of returns this year with large fluctuations due to considerable uncertainty around inflation, economic activity and changing expectations for central bank actions. For example, NZ interest rates made new highs early March on the view that central banks would have to hike more and hold rates higher for longer in response to “sticky” inflation. Subsequently rates fell significantly with offshore banking sector concerns and fears for financial stability. From a sector return perspective, the return differential between swap and government bonds has been relatively modest, although longer swaps outperformed governments in March. NZ credit has performed surprisingly well relative to offshore with margins little changed. The retail bid and volume of money looking for a home has been solid, but we are starting to see investors becoming “more picky” especially since bond yields have fallen and look less attractive relative to retail deposit rates.

In uncertain times we generally keep positioning modest relative to benchmark. We have added value through adding/subtracting duration when interest rates looked mispriced relative to our expectations. In March we added longer maturity bonds at higher levels and then took some profit on our holdings with rates much lower at month end. With yields currently around near terms lows we are close to neutral duration and will be patient awaiting better opportunities to buy or sell bonds.

We are close to the end of this tightening cycle but how “sticky” inflation proves to be and how tight monetary conditions impact the economy will determine how long rates need to stay at restrictive levels. The inverted yield curve complicates the decision on yield curve positioning as there is no term premium and the fund generally gives up yield by going longer duration. We do feel however, that the correct positioning is to move longer at some stage as inflation and the economy will slow, but we might have to wait until this occurs in any meaningful way. In the meantime, we will look for the most consistent ways to add value and prefer a high portfolio yield but will add/subtract duration as opportunities arise.

## Fund Commentary

The fund return was positive and outperformed the Bloomberg NZ Bond Composite benchmark for the quarter. The move lower in interest rates was the main driver of absolute returns, and the higher fund yield and duration positioning helped relative performance. On sector allocation, credit holdings which retail investors like performed well with NZ credit markets outperforming offshore. Inflation linked bonds also performed well. The fund continues to maintain a higher yield from holding credit issues and inflation linked government bonds in preference to lower yielding nominal government bonds. We will likely move towards a barbell in terms of duration positioning. 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.

## Key Fund Facts

<b>Distributions</b>		<b>Estimated annual fund charges (incl. GST)</b>	
Wholesale fund:	Calendar quarter	Wholesale:	Negotiated outside of unit price
Retail fund:	Calendar quarter	Retail:	0.65%, refer PDS for more detail
<b>Hedging</b>		<b>Buy / Sell spread</b>	<b>Strategy size</b>
All investments will be in New Zealand dollars		<a href="#">Click to view</a>	\$432.5m
<b>Strategy Launch</b>			
October 2007			
<b>Exclusions:</b> Controversial weapons.			
<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> .			

## Compliance

The wholesale fund complied with its investment mandate and trust deed during the quarter.

## Contact Us

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