

Factsheet 30 April 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 had a positive month as interest rates moved lower.
- We are close to the end of the hiking cycle but there is still considerable uncertainty around inflation and the economy.
- NZ credit margins remain supported.

Fund Highlights

- Fund returns finished positive helped by a move lower in interest rates.
- We want to maintain a higher yield and participate in gains if rates move lower.
- The fund has been 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 ¹	0.95%	1.54%	2.89%	-1.90%	1.89%	3.39%
Benchmark ²	0.96%	1.38%	1.59%	-3.26%	0.75%	2.14%
Retail ³	0.88%	1.37%	2.23%	-2.46%	1.19%	2.61%

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.

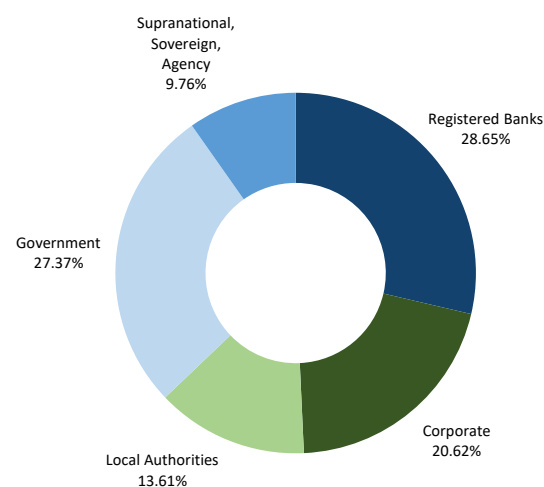
Overview

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	(%)	Green, sustainable and social bonds
Housing New Zealand Ltd	7.95	AAA	55.5	22.65% of the fund
New Zealand Local Govt Funding Agency	7.82	AA	25.4	Duration
ASB Bank Ltd	7.39	A	15.6	Fund 4.77 years vs Benchmark 4.82 years
Westpac New Zealand Ltd	7.29	BBB	3.5	Yield to Maturity*
Kiwibank Ltd	5.36			Fund (gross) 4.73% vs Benchmark 4.62%

*excludes NZ central government

* Excluding the inflation component of government inflation linked bonds

Market Commentary

NZ bonds had a positive return in April as interest rates moved lower providing some capital gain. In terms of sector performance government bonds had a catch-up from past months, performing better than similar maturities of swap. Inflation linked bonds had a good month (we hold the short maturity 2025 linkers), and credit continues to remain stable in terms of margin adding value through a higher yield. The demand/supply dynamics from retail continue to be a key driver for credit.

We want to maintain a higher yield and participate in gains if rates move lower. The fund has been moving towards a “barbell” curve position, holding higher yielding short maturity bonds, less mid curve and adding longer maturity bonds on opportunities when rates are higher in the range.

We think the front of the yield curve will be the highest yielding part of the curve for the longest. The RBNZ is near the end of their hiking cycle, but they won’t want rates lower until they are confident inflation is under control. Inflation and growth are slowing albeit at a slower pace than they would like, and its likely short rates may need to be higher for longer. There is a risk this may drag the mid curve higher. The longer end of the curve is inverted pricing - a slowing in activity and will likely follow the data. The long end is complicated as we give up yield investing longer, but there is the potential for greater capital gains from longer maturity bonds if rates move lower.

The caveat to the yield curve positioning above is that market uncertainty remains elevated and moves have at times been large. It has been a market where more value is added through patience and awaiting opportunities to be active in duration rather than a long-term macro set-and-forget view. 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 the meantime, we will look for the most consistent ways to add value and prefer a high portfolio yield through holding more high-quality credit and less government bonds. We will add/subtract duration as opportunities arise.

Fund Commentary

The fund return was positive and performance in line with the Bloomberg NZ Bond Composite benchmark for the month. The move lower in interest rates was the main driver of absolute returns.

The fund is positioned close to benchmark duration making the contribution from interest rate positioning around neutral. A higher fund yield, curve positioning, and security selection were the drivers of relative performance.

On sector allocation, inflation linked bonds performed well, government bonds outperformed swap which was unhelpful as we hold less governments than benchmark. Credit margins were stable and helped with a higher yield.

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. On opportunities we will move towards a barbell in terms of curve 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

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	\$436.5m
Exclusions: Controversial weapons.		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 .			

Compliance

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

Contact Us

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