

# Nikko AM NZ Corporate Bond Strategy

Monthly Update 31 December 2024

Assets are held in the Nikko AM Wholesale NZ Corporate Bond Fund. The Nikko AM NZ Corporate Bond Fund (retail) and the GoalsGetter KiwiSaver Scheme Nikko AM NZ Corporate Bond Fund invest in units in the wholesale fund, which the commentary refers to.

## Market Overview

- Bond returns were positive over the quarter with October negative and November and December both positive months.
- The yield curve steepened in shape over the quarter as short-term rates performed better than longer maturity bonds.
- There has been an increase in new bond deals to the market which has caused a modest widening in credit margins.

## Fund Highlights

- The benefits of longer duration have varied depending on the maturity term of bonds held. Bonds inside 10 years maturity performed better than longer maturities which were dragged higher in sympathy with offshore bond moves.
- There was a reasonable amount of new bond issuance over the quarter, and we continue to add quality credit to maintain a higher yield.
- We expect the fund will continue to perform well over the medium term as the cash rate continues lower and carry and roll makes a larger contribution to returns with a positive shaped yield curve.

## Performance

	One month	Three months	One year	Three years (p.a.)	Five years (p.a.)	Ten years (p.a.)
<b>Wholesale<sup>1</sup></b>	1.08%	1.12%	7.68%	3.95%	2.94%	4.49%
<b>Benchmark<sup>2</sup></b>	1.06%	1.25%	7.39%	3.65%	2.48%	3.64%
<b>Retail<sup>3</sup></b>	1.04%	0.94%	6.96%	3.24%	2.21%	3.69%
<b>KiwiSaver<sup>3</sup></b>	1.03%	0.96%	7.00%	3.21%	2.17%	

1. Returns are before tax and before the deduction of fees and including tax credits (if any).
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, Senior Fixed Income Manager and Matthew Johnson, Senior Fixed Income Manager.

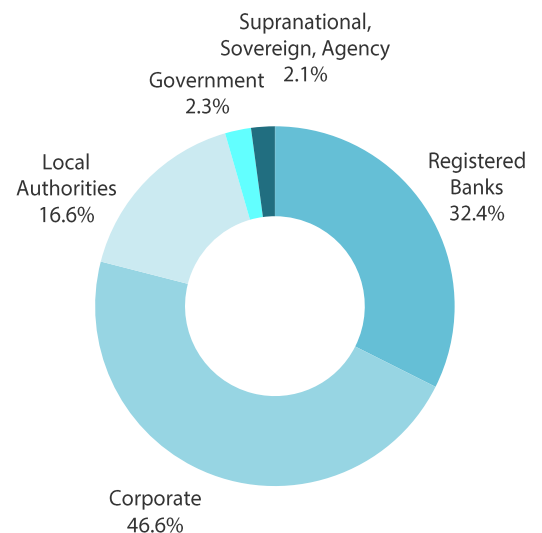
## Overview

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.

## Sector Allocation



Top 5 Corporate Issuers*	(%)	Credit Quality	(%)	Green, sustainable and social bonds
Housing New Zealand	9.68	AAA	25.19	18.43% of the fund
New Zealand Local Govt Funding Agency	7.55	AA	22.38	<b>Duration</b>
Westpac New Zealand	7.02	A	24.07	Fund 4.13 years vs Benchmark 2.72 years
Kiwibank	6.53	BBB	28.36	<b>Yield to Maturity*</b>
Bank of New Zealand	6.44			Fund (gross) 4.71% vs Benchmark 4.15%

\*Include cash held by custodian

\* Excluding the inflation component of government inflation linked bonds

## Market Commentary

The 2024 year finished with a positive return for bonds both in December and over the quarter. Interest rate moves were the main driver of absolute and relative returns with a negative return in October when interest rates moved higher and positive in November and December with interest rates generally lower. Shorter maturity bonds outperformed longer maturity bonds with the yield curve steepening in shape, for example the 2-year NZ Government bond rate fell 20bps over the quarter whereas the 10-year was 17bps higher. The fund has been positioned for lower rates with a longer duration than benchmark over the past quarter.

Performance across sectors of the bond market has been mixed with government bonds continuing to underperform due to high and increasing supply. Swap rates performed better and their spread relative to similar maturities of governments has continued to expand (Swap trades below Govt rates). Credit holdings performed well, adding to performance through a higher yield. Over the quarter there has been some widening of credit margins from tight levels following an increase in supply, but over the medium term a higher yield accrual should help support performance.

Interest rate moves for NZ government bonds for December were 1yr -18bps, 5yr -16bps, 10yr +4bps, and the 2054 bond +14bps. NZ Swap rates were 1yr -32bps, 5 yr -23bps, 10yr -14bps. For the quarter moves were governments 1yr -20bps, 5yr unchanged, 10yr +17bps, and the 2054 bond +24bps. Swaps were 1yr -49bps, 5 yr -4bps, 10yr -4bps.

The NZ bond market continues to remain reasonably well supported relative to global bonds with our market viewed as a "safer bet" supported by a weaker economy, and a lower rates outlook. Shorter maturity bonds have outperformed as they are more influenced by the actions of the RBNZ and local economic outcomes that we expect should remain supportive with the cash rate moving lower. Longer maturity bonds look attractive in terms of a higher yield and potential for further modest capital gains. The caveat is longer bonds are more subject to the direction of offshore bond moves and there is greater uncertainty around growth and inflation outcomes in the US which has kept curves steeper.

We continue to like quality credit to maintain a higher yield and expect that carry and roll will make a larger contribution to returns going forward with the yield curve steeply positive in shape. NZ government bonds look cheap relative to swap rates and where appropriate we hold an increased weighting to governments with the view that they will likely outperform swap product over the medium term.

## Fund Commentary

The fund returned 1.08% for December and outperformed its benchmark the Bloomberg Credit Index which returned 1.06%. Returns for the quarter were fund 1.12%, and benchmark 1.25%.

The move in interest rates was the main driver of absolute and relative returns over the month and quarter. The longer duration position delivered mixed results as shorter maturity bonds performed better than longer maturities as the yield curve steepened. Credit holdings helped with a higher yield accrual. Credit margins have widened slightly (from previously tight levels) with more bond supply, but a gradual widening should benefit returns through a higher yield over the medium term. The fund participated in several new bond issues over the quarter, we like adding quality credit to maintain a higher fund yield which has proved a consistent value add over time. We expect bonds can continue to perform well as cash rates are moved lower. The upward sloping yield curve will provide the fund with opportunity to execute a carry and roll strategy which should provide an additional contribution to future returns.

## Key Fund Facts

<b>Distributions</b>		<b>Hedging:</b>	Any foreign currency exposures are hedged to NZD within operational range of 95%-105%	<b>Strategy Launch:</b>	July 2009
<b>Wholesale:</b>	Calendar quarter	<b>Exclusions:</b>	Controversial weapons	<b>Strategy size:</b>	\$460.5m
<b>Retail:</b>	Calendar quarter				
<b>KiwiSaver:</b>	Does not distribute			<b>Buy / Sell spread:</b>	<a href="#">Click to view</a>
<b>Estimated annual fund changes (incl. GST)</b>		<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) on our website <a href="https://www.nikkoam.co.nz/invest/retail">https://www.nikkoam.co.nz/invest/retail</a> .		
<b>Wholesale:</b>	Negotiated outside of unit price				
<b>Retail:</b>	0.70%, refer PDS for more details				
<b>KiwiSaver:</b>	0.70%, refer PDS for more details				

## Compliance

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

## Contact Us

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