

# Nikko AM NZ Corporate Bond Strategy

Monthly Update 31 March 2025

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 for the quarter after some volatility from month to month with uncertainty buffeting markets.
- Yield curve remains steep and should garner more investor interest at some stage with longer government bond trading higher than swap rates.
- NZ bond issuance remains limited which should continue to support credit margins.

## Fund Highlights

- NZ bonds had a positive return for the quarter and returns were close to benchmark.
- NZ government bonds performed better than swap rates over the quarter.
- We expect the funds will 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>	0.47%	0.94%	7.83%	5.16%	3.10%	4.33%
<b>Benchmark<sup>2</sup></b>	0.51%	0.92%	7.57%	4.84%	2.53%	3.46%
<b>Retail<sup>3</sup></b>	0.41%	0.75%	7.10%	4.44%	2.37%	3.54%
<b>KiwiSaver<sup>3</sup></b>	0.40%	0.75%	7.12%	4.40%	2.32%	

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).

## 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.

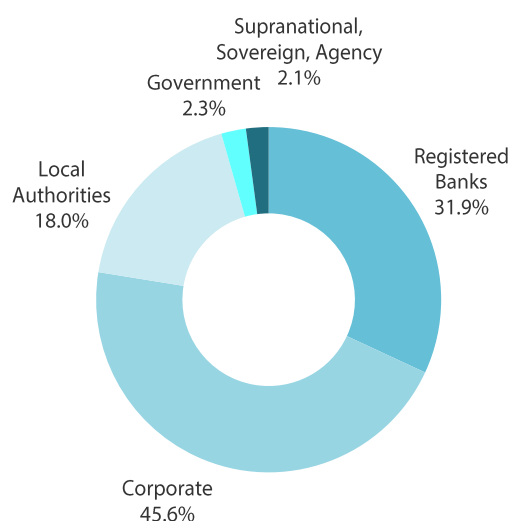
## Objective

The fund aims to outperform the benchmark return by 0.70% per annum before fees, expenses and taxes over a rolling three-year period.

## Five Year Cumulative Performance, \$10,000 invested<sup>1,2</sup>



## Sector Allocation



Top 5 Corporate Issuers*	(%)	Credit Quality	(%)	Green, sustainable and social bonds
Housing New Zealand	9.53	AAA	24.27	18.33% of the fund
New Zealand Local Govt Funding Agency	7.48	AA	22.54	<b>Duration</b>
KiwiBank	7.10	A	24.19	Fund 4.11 years vs Benchmark 2.64 years
Westpac New Zealand	7.05	BBB	29.00	<b>Yield to Maturity*</b>
Dunedin City Treasury	4.39			Fund (gross) 4.74% vs Benchmark 4.15%

\*Include cash held by custodian

\* Excluding the inflation component of government inflation linked bonds

## Market Commentary

NZ bonds had a positive quarter after some monthly volatility with January negative, and both February and March positive outcomes. In terms of interest rate moves the 1-year rate finished the quarter lower, however rates 2 years and longer were higher which was a detractor for longer duration funds. The fund's higher income accrual was the main attributor of positive performance over the quarter.

Interest rate moves for NZ government bonds for the quarter were 1yr -13bp, 5yr +9bps, 10yr +6bps, and the longest 2054 bond +6bps. NZ Swap rates were 1yr -22bps, 5yr +15bps, 10yr +18bps. NZ government bonds were the better performing sector as they compressed in spread relative to swap rates following stronger demand for government bonds.

Uncertainty had a significant influence on risk appetite and markets over the first quarter with the market still not sure how to price the impact of tariffs, a potential ramp up in defence spending and other Trump related geopolitics. Volatility does provide some opportunities to buy/sell at better levels, and in general we have increased our holdings of government bonds when they have looked "cheap" relative to swap rates and maintained a longer duration positioning.

We expect the RBNZ will continue to reduce the cash rate toward 3% to engender a more material improvement in the economy. And with short rates lower and a steep yield curve, longer term bonds look attractive in terms of carry and roll and should provide a positive contribution to returns over the medium term. The spread that government bonds trade above swap rates should narrow over time if we see government revenues recover and some decrease in government bond issuance from currently high borrowing levels. We like quality credit for extra yield, and we receive a higher credit margin for investing longer as well as benefiting from the steep yield curve. There has been very limited new bond issuance in the local market (ex-government bonds) and with demand outweighing supply we expect NZ credit margins to remain well supported. We recycled short maturity credit holdings into longer maturities late 2024 (when there was a ramp up in issuance) and the bond funds are generally well positioned if the volume of supply remains limited.

## Fund Commentary

The fund returned 0.47% for the month of March and 0.94% for the quarter. Performance for the quarter was close to benchmark the Bloomberg Credit Index which returned 0.92%.

The higher income accrual was the main positive attributor of return over the quarter, with the longer duration positioning unhelpful as rates moved modestly higher. Credit holdings continued to perform well with limited new issuance. We continue to maintain a longer duration with a steep yield curve and expect carry and roll will support returns over the medium term.

## 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>	\$467.3m
<b>Retail:</b>	Calendar quarter	<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>Buy / Sell spread:</b>	<a href="#">Click to view</a>
<b>KiwiSaver:</b>	Does not distribute				
<b>Estimated annual fund changes (incl. GST)</b>					
<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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