

Nikko AM NZ Corporate Bond Strategy

Monthly Update 28 February 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

- After some volatility February finished as a positive month for bond markets with yields slightly lower.
- Yield curve remains steep and should garner more investor interest at some stage with longer government bonds trading higher than swap rates.
- The NZ bond issuance calendar remains light which should continue to support credit margins.

Fund Highlights

- The bond fund returns were positive and generally better than benchmark, with longer duration positioning helpful as interest rates moved lower.
- NZ government bonds played some catch up and performed better than swap rates over the month.
- 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.)
Wholesale¹	0.57%	1.56%	8.67%	4.50%	2.54%	4.35%
Benchmark²	0.34%	1.46%	8.09%	4.15%	2.21%	3.47%
Retail³	0.51%	1.38%	7.90%	3.78%	1.81%	3.56%
KiwiSaver³	0.50%	1.38%	7.91%	3.76%	1.77%	

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.

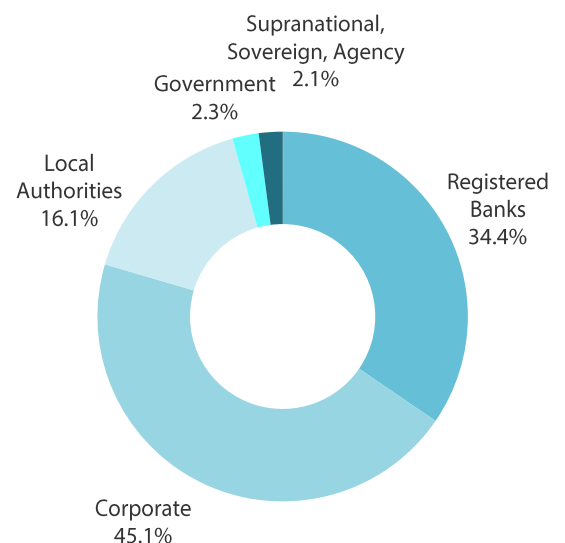
Objective

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^{1,2}



Sector Allocation



Top 5 Corporate Issuers*	(%)	Credit Quality	(%)	Green, sustainable and social bonds
Housing New Zealand	9.41	AAA	24.05	18.29% of the fund
New Zealand Local Govt Funding Agency	7.35	AA	23.67	Duration
Bank of New Zealand	7.21	A	23.96	Fund 4.07 years vs Benchmark 2.66 years
Westpac New Zealand	6.99	BBB	28.33	Yield to Maturity*
Kiwibank	6.85			Fund (gross) 4.75% vs Benchmark 4.20%

*Include cash held by custodian

* Excluding the inflation component of government inflation linked bonds

Market Commentary

NZ bonds had a positive return for the month of February as interest rates finished lower. Both absolute and relative returns were attributed to monthly income accrual and some modest capital gain due to the move lower in rates. In general, the fund has been positioned with longer duration than benchmark which helped when rates declined.

Interest rates have been reasonably volatile the past two months 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, but our medium-term view and portfolio positioning remains little changed. We continue to like quality credit for extra yield, and we receive a wider credit margin for investing longer. The fund's moderate long duration position (with the yield curve steep in shape) should help add value through carry and roll over the medium term. In conjunction we have incrementally increased Government bond weightings where benchmark relevant as we expect government bonds may perform better once we are past peak issuance volumes (The DMO has been actively pre-funding borrowings and government revenues may increase if we see a recovery in the economy).

During February the RBNZ delivered a 50bps cut as expected and remains on track to continue reducing the cash rate toward 3% which should hold the front of the yield curve lower. Interest rate moves for NZ government bonds for February were 1yr -11bp, 5yr -5bps, 10yr -9bps, and the longest 2054 bond -6bps. NZ Swap rates were 1yr -9bps, 5yr unchanged, 10yr -3bps. In local bond markets NZ government bonds were the better performing sector as they compressed in spread relative to swap rates following strong demand for the syndication of the 2035 government bond.

We also had the first corporate bond issuance for the year which was well received with ANZ bank issuing a 5-year bond at a margin of +98bps and scaling the volume allocated. Indications of coming new bond issuance remain limited which should help support credit margin performance as demand outweighs supply.

Fund Commentary

The fund had a positive return of 0.57% for February outperforming its benchmark the Bloomberg Credit Index which returned 0.34%.

The move lower in interest rates was the main driver of absolute and relative returns over the month. And the longer duration position was helpful as rates moved lower. The benchmark does not include any government holdings although the fund does have a small weighting. Credit margins should remain supported with limited issuance. We expect bonds can continue to perform well as cash rates are moved lower and investors seek value further along the curve.

Key Fund Facts

Distributions		Hedging:	Any foreign currency exposures are hedged to NZD within operational range of 95%-105%	Strategy Launch:	July 2009
Wholesale:	Calendar quarter	Exclusions:	Controversial weapons	Strategy size:	\$473m
Retail:	Calendar quarter	Restrictions:	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 https://www.nikkoam.co.nz/invest/retail .	Buy / Sell spread:	Click to view
KiwiSaver:	Does not distribute				
Estimated annual fund changes (incl. GST)					
Wholesale:	Negotiated outside of unit price				
Retail:	0.70%, refer PDS for more details				
KiwiSaver:	0.70%, refer PDS for more details				

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 information is for the use of researchers, financial advisers and wholesale clients. This material has been prepared without taking into account a potential investor's objectives, financial situation or needs and is not intended to constitute 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 fund, please refer to our Product Disclosure Statement on nikkoam.co.nz.