

Nikko AM NZ Bond Strategy

Monthly Update 28 February 2025

Assets are held in the Nikko AM Wholesale NZ Bond Fund. The Nikko AM NZ Bond Fund (retail) and the GoalsGetter KiwiSaver Scheme Nikko AM NZ 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	0.72%	1.31%	8.28%	3.22%	1.33%	3.60%
Benchmark²	0.59%	1.16%	7.17%	2.12%	0.16%	2.50%
Retail³	0.67%	1.15%	7.57%	2.57%	0.67%	2.86%

1. Returns are before tax and before the deduction of fees and including tax credits (if any).
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).

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 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.

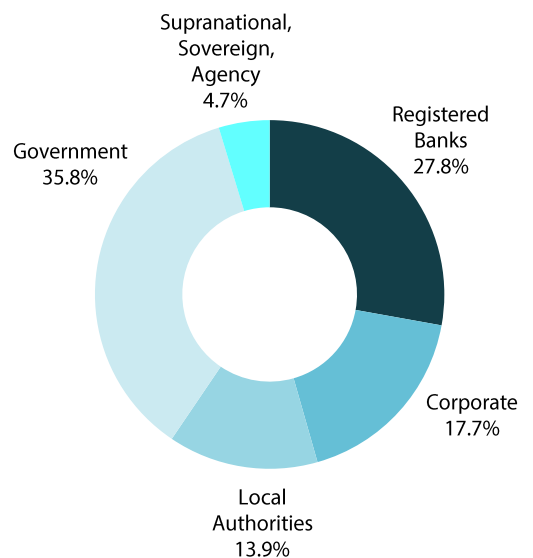
Objective

The fund aims to outperform the benchmark return by 0.60% per annum before fees, expenses and taxes over a rolling three-year period.

Five Year Cumulative Performance, \$10,000 invested^{1,2}



Sector Allocation



Top 5 Corporate Issuers*	(%)	Credit Quality	(%)	Green, sustainable and social bonds
New Zealand Local Govt Funding Agency	7.27	AAA	54.04	19.87% of the fund
Kiwibank	6.13	AA	20.52	Duration
Westpac New Zealand	6.03	A	20.87	Fund 5.70 years vs Benchmark 4.57 years
Bank of New Zealand	5.20	BBB	4.57	Yield to Maturity*
Housing New Zealand	4.78			Fund (gross) 4.50% vs Benchmark 4.07%

* Excludes NZ central government

* 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 returned 0.72% for February and outperformed its benchmark the Bloomberg Composite which returned 0.59%.

The move lower in interest rates was a key driver of absolute and relative returns. The outperformance of government bonds (which make up close to 70% of the benchmark) was relatively neutral as the government bonds that the fund holds are of long duration (we hold a lower percentage of government bonds). 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

Distributions		Hedging:	Any foreign currency exposure are hedged to NZD within operational range of 95%-105%	Strategy Launch:	October 2007
Wholesale:	Calendar quarter	Exclusions:	Controversial weapons	Strategy size:	\$870m
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
Estimated annual fund changes (incl. GST)					
Wholesale:	Negotiated outside of unit price				
Retail:	0.65%, refer PDS for more details				

Compliance

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

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