Factsheet 28 February 2021

NIKKO AM NZ CASH STRATEGY

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

Market Overview

- 90-day bank bill rates traded sideways for most the month ranging between 0.275% and 0.29% until the final two days of February where in sympathy with stress in the long end they moved up to 0.305%.
- The RBNZ left the OCR unchanged and continued its accommodative monetary policy stance highlighting it expects this support to continue for some time despite signs of an improving economy.
- The labour market proved stronger than expected. Fourth quarter unemployment fell from 5.3% to 4.9% against market expectations of an uptick in unemployment to 5.6% with construction and healthcare strong contributors to the fall.

Fund Highlights

- The fund holds a portfolio of high quality credit which is expected to perform well in an environment of low and stable short term interest rates.
- A longer than benchmark duration position has been maintained resulting in the fund's yield to maturity only falling slightly over the month.
- Returns are likely to moderate over the coming months as proceeds from maturities are reinvested at current prevailing market interest rates.

Performance

	One month	Three months	One year	Three years (p.a)	Five years (p.a)	Ten years (p.a)
Wholesale[1]	0.07%	0.23%	1.44%	2.27%	2.60%	3.33%
Benchmark[2]	0.02%	0.06%	0.42%	1.30%	1.64%	2.31%
Retail[3]	0.05%	0.16%	1.13%	1.91%	2.25%	
KiwiSaver[3]	0.04%	0.13%	1.00%			

1. Returns are before tax and before the deduction of fees.
2. Benchmark: Bloomberg NZBond Bank Bill 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, Fixed Income Manager and Matthew Johnson, Fixed Income Manager.

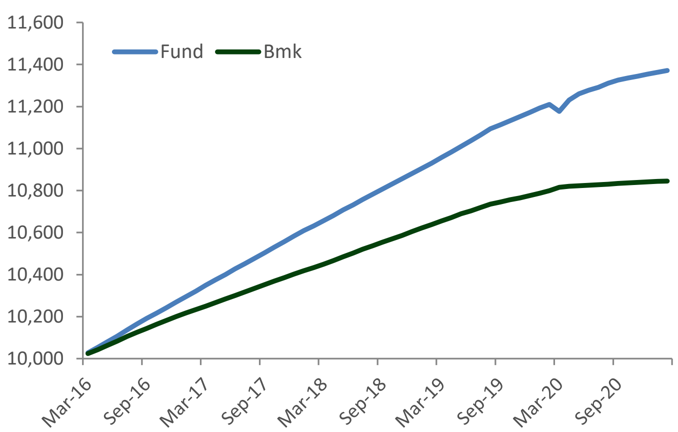
Overview

The strategy aims to generate income by constructing an actively managed investment portfolio of short-term deposits and bonds whilst preserving capital value.

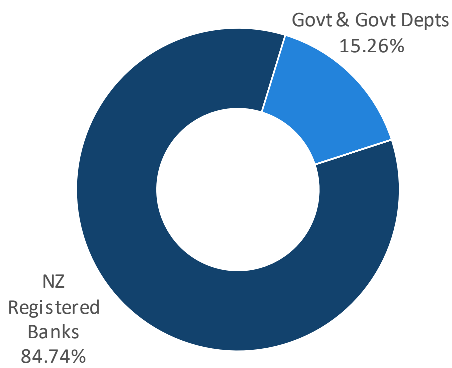
Objective

The fund aims to outperform the benchmark return by 0.20% per annum before fees, expenses and taxes over a rolling three year period.

Five Year Cumulative Performance, $10,000 invested[1, 2]



Asset Allocation



Top 5 Issuers	(%)
ANZ Bank	15.97%
Westpac New Zealand Ltd	14.20%
Rabobank	12.11%
ASB Bank Limited	9.76%
Kiwibank Ltd	9.22%

Credit Quality	(%)
AAA	15.26
AA	42.56
A	42.18

Duration
Fund 115 days vs Benchmark 45 days

Yield
Fund (gross) 0.91% vs Benchmark 0.28%

Market Commentary

Dynamics of the short-term interest rate market continue to be of robust demand and limited supply. These features unsurprisingly have led to flat and stable bank bill rates and downward pressure on credit spreads. Driving these trends are inflows to the market from KiwiSaver, excess liquidity in the banking system combined with the availability of the FLP (funding for lending program), strongly accommodative monetary policy and more recently concerns around reflation seeing bond funds look to reduce duration. We expect these features to persist throughout 2021 despite positive signs around economic activity and inflation. On the domestic front economic data continues to point to a stronger economy than many expected whilst boarders remain closed. Most notable of data released in February was the strong labour market numbers with fourth quarter unemployment falling from 5.3% to 4.9% against market expectations of an uptick in unemployment to 5.6%. This was thanks to stronger than expected jobs growth +0.6% QoQ against market expectations of a retrenchment of 0.1%. Looking to wages, the Labour cost index expanded 0.5% over the quarter bringing annual wage growth to 1.5%. Key contributors to these strong results were the construction and healthcare sectors whilst unsurprisingly weakness was seen in the media and tourism industries. Strength in the construction and healthcare sectors are of little surprise. Healthcare seeing support from the ongoing management of COVID whilst construction has been supported by activity in the residential sector and various government programs to bring forward infrastructure projects. Residential building consents look particularly supportive up 4.8% YoY with this growth primarily coming from “townhouses, flats and units” up a remarkable 41.4% YoY. With improving employment data and some sign of inflation support the Reserve Bank finds itself much closer to achieving its monetary policy objectives than expected. This aside the RBNZ made it very clear in its February MPS that accommodative monetary policy will be required for some time. We continue to believe it is much too soon for the RBNZ to contemplate rate hikes. Rather we expect a more finessed approach with macroprudential tools such as LVRs (load to value ratio) and the use of the LSAP (large scale asset purchases) likely to be the policies of choice rather than the blunt tool of OCR changes to remove stress from areas of the economy seen as too hot. This approach combined with the continued availability of funding capacity in the FLP and strong demand for short paper will likely see short term rates remain low and anchored by the OCR.

Fund Commentary

The fund performed well in February returning 0.07% outperforming the 90-day bank bill index which returned 0.02%. The fund holds a longer than benchmark duration position which provides a yield enhancement over the 90-day bank bill index with benefits accruing primarily from the slope of the credit curve. Recent economic data points to a stronger economy than many expected whilst boarders remain closed. This strong performance, if maintained, could lead to rising interest rates for longer tenors however in their February MPS the RBNZ made it clear that accommodative monetary policy will be required for some time yet. Should pressures build we expect the RBNZ to pursue a more finessed approach using macroprudential tools and the LSAP rather than the blunt force of OCR changes. This approach along with capacity in the FLP will likely see short rates anchored around current levels over the next year. In this environment we expect short term interest rates will be stable and the fund’s long duration position will perform well.

Key Fund Facts

Distributions

Wholesale fund: Calendar quarter
Retail fund: Calendar quarter
KiwiSaver fund: Does not distribute

Hedging

All investments will be in New Zealand dollars

Estimated annual fund charges (incl. GST)

Wholesale: Negotiated outside of unit price
Retail: 0.32%, refer PDS for more details
KiwiSaver: 0.45%, refer PDS for more details

Buy / Sell spread	Strategy size	Strategy Launch
0.00% / 0.00	$766.2m	October 2007

Compliance

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

Contact Us

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