

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

- As universally expected, the RBNZ left monetary policy settings unchanged with the Official Cash Rate (OCR) at 0.25% and the LSAP and FLP programmes unchanged.
- The RBNZ's MPS included the reinstatement of the OCR track. The forecast implying a first rate hike could occur in 2H22 followed by steady hikes out to 2024 taking the OCR to 1.75%.
- 90-day bank bill rates remained unchanged on the RBNZ announcement, however interest rates for longer terms moved up in anticipation of these potential OCR hikes.

Fund Highlights

- The fund holds a longer than benchmark duration position to benefit from slope in the credit and bank bill curves.
- Duration is actively managed and may reduce as we approach the time where the RBNZ has indicated potential OCR hikes.
- The fund holds a range of securities including floating rate notes which provide some protection against a potentially rising cash rate.

Performance

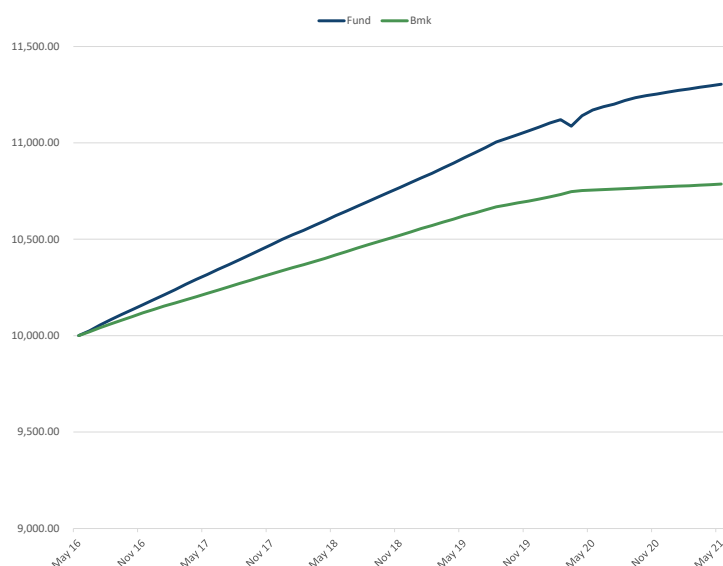
	One month	Three months	One year	Three years (p.a)	Five years (p.a)	Ten years (p.a)
Wholesale ¹	0.08%	0.22%	1.20%	2.10%	2.48%	3.24%
Benchmark ²	0.03%	0.08%	0.29%	1.16%	1.52%	2.24%
Retail ³	0.05%	0.15%	0.91%	1.75%	2.13%	
KiwiSaver ³	0.04%	0.11%	0.76%	1.84%		

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).

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



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.

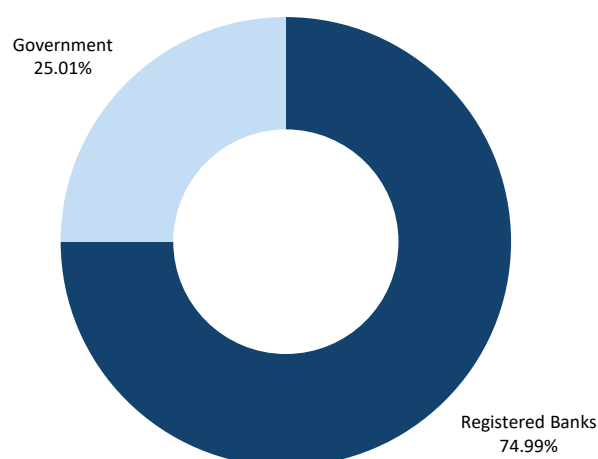
Overview

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.

Asset Allocation



Top 5 Issuers	(%)	Credit Quality	(%)	Duration
NZ Tax Trading Co.	13.50	A	43.40	Fund 97 days vs Benchmark 45 days
Cooperatieve Rabo U.A.	11.99	AA	31.59	
Westpac New Zealand Ltd	11.92	AAA	25.01	
Kiwibank Ltd	11.89			
Inland Revenue NZ	11.51			

Yield to Maturity
Fund (gross) 0.86% vs Benchmark 0.29%

Market Commentary

The RBNZ left monetary policy settings unchanged in its May Monetary Policy Statement (MPS) with the OCR at 0.25% and the LSAP and FLP programmes unchanged. This was universally expected. The big news in its MPS was the reinstatement of an OCR track. The market had been expecting an acknowledgement of an improved economic outlook and this was delivered. The forecast implied a first rate hike could occur in 2H22 followed by steady hikes out to 2024 taking the OCR to 1.75%. The market reacted to this forecast by increasing interest rates for terms impacted by this potentially higher OCR, whilst interest rates for shorter terms rates remained unchanged.

Looking at changes between the RBNZ’s last MPS in February and its May MPS we note in general economic data has been stronger than the RBNZ was anticipating in February. The housing market continues to see price growth albeit at a declining rate, the labour market looks strong, commodity prices have increased, and inflation expectations continue to firm and now sit near the midpoint of the RBNZ’s 1-3% band. This improved data has fed into the OCR track however, the RBNZ was careful to highlight the track is highly conditional on several key assumptions.

These key assumptions appear reasonable:

1. There is a strong global recovery as vaccine programmes facilitate a return to normal activity
2. Supply chain disruptions are transitory and begin to ease towards the end of the year
3. The Government’s spending continues to support the economy
4. Easing of boarder restrictions is positive for NZ and expands to include other countries in 2022

With its May MPS, the RBNZ’s monetary policy stance is becoming more nuanced - strongly accommodative monetary policy has been maintained however, we have the first hints that this support will eventually be reduced. We expect this, combined with a continuing strong demand for short term securities will see short term rates remain anchored around current levels for terms ending before rate rises.

Fund Commentary

The fund performed well in May returning 0.08% outperforming the 90-day bank bill index which returned 0.03%. The RBNZ’s May MPS included the reinstatement of the OCR track which implied a first hike could occur in 2H22. The fund holds a longer than benchmark duration position to benefit from slope in the credit and bank bill curves. This duration position is actively managed and may reduce as we approach the period where the RBNZ has indicated potential OCR hikes. The market continues to see strong demand for short term securities and the RBNZ’s stance remains highly accommodative with the FLP and LSAP continuing. We expect to see short term rates anchored around current levels for terms ending before rate rises as indicated by the RBNZ’s OCR track. As terms approach the period where the RBNZ’s OCR track indicates OCR rises could occur interest rates become more sensitive and, will fluctuate as the market prices in a view on when and if the RBNZ delivers on these potential OCR increases.

Key Fund Facts

Distributions		Estimated annual fund charges (incl. GST)		
Wholesale fund:	Calendar quarter	Wholesale:	Negotiated outside of unit price	
Retail fund:	Calendar quarter	Retail:	0.30%, refer PDS for more details	
KiwiSaver fund:	Does not distribute	KiwiSaver:	0.45%, refer PDS for more details	
Hedging		Buy / Sell spread	Strategy size	Strategy Launch
All investments will be in New Zealand dollars		0.00% / 0.00	\$737.2m	October 2007

Compliance

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

Contact Us

www.nikkoam.co.nz | nzenquiries@nikkoam.com

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