

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

- First quarter Gross Domestic Product (GDP) showed a surprise increase of 1.6%, a significant beat of market expectations of 0.5%.
- On the back of these strong GDP numbers, increasing inflation pressures and low unemployment, markets have brought forward the expected timing of OCR hikes.
- Bank bill rates edged up with 90-day rates increasing 3bps to 0.35% and 6 month rates up +4.5bps to sit at 0.38%.

Fund Highlights

- The fund performed well over the quarter, returning 0.22% outperforming index which returned 0.08%.
- 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

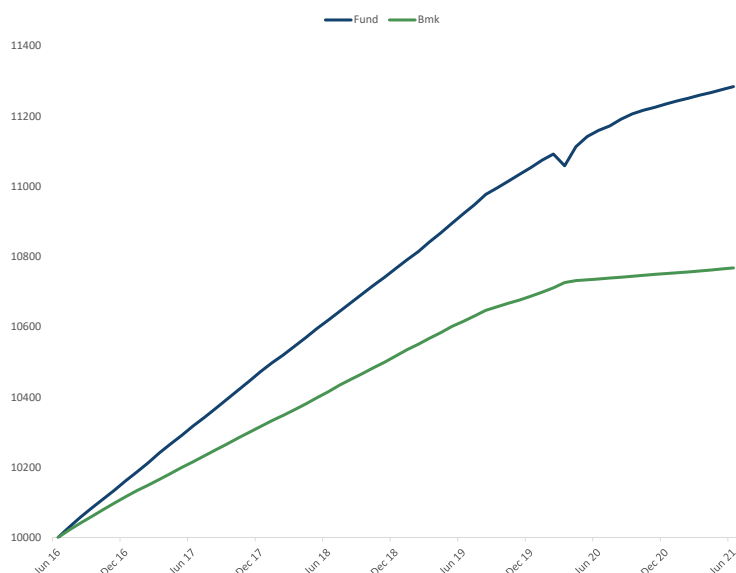
	One month	Three months	One year	Three years (p.a)	Five years (p.a)	Ten years (p.a)
Wholesale ¹	0.07%	0.22%	1.12%	2.05%	2.45%	3.22%
Benchmark ²	0.03%	0.08%	0.30%	1.12%	1.49%	2.23%
Retail ³	0.05%	0.15%	0.83%	1.70%	2.10%	
KiwiSaver ³	0.04%	0.11%	0.68%	1.79%		

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.



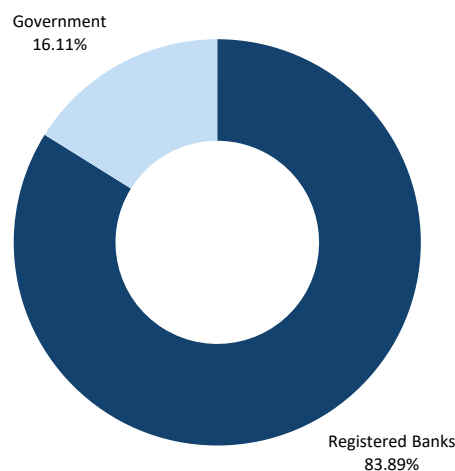
Overview

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
Westpac New Zealand Ltd	17.58%	AAA	16.1	Fund 107 days vs Benchmark 45 days
Cooperatieve Rabo U.A.	13.91%	AA	40.7	
Kiwibank Ltd	12.06%	A	43.2	Yield to Maturity Fund (gross) 0.78% vs Benchmark 0.29%
ANZ Bank New Zealand	11.27%			
ASB Bank Ltd	9.94%			

Market Commentary

First quarter GDP was much stronger than expected, increasing 1.6%, a significant beat of market expectations which sat at 0.5% and the RBNZ’s May MPS forecast of 0.6%. The sheer unanticipated strength of this growth adds to the increasing pool of evidence that New Zealand’s economy is doing well despite the constraints of COVID. Domestic demand for both households and businesses looks robust, corporate pricing intentions are running hot, inflation expectations are building, and unemployment remains at low levels. The combination of these features increases the risk the RBNZ will need to act sooner than expected to meet its targets.

Diving into the detail of these GDP numbers, growth for both goods-producing industries was +2.4% and the services sector +1.1%. Construction was a notable performer increasing 6.6% over the quarter indicating the sector may not be as capacity constrained as previously feared. In general GDP appears to be well supported by a lift in domestic demand. There are notable areas of weakness including international tourism and students, however these have been offset by strong household spending up 5.4% as New Zealanders, still unable to travel widely, spent more domestically on accommodation, eating out, large household assets such as: furniture, cars and AV equipment and home renovations.

These growth numbers along with continued supply chain constraints, low unemployment and the unavailability of migration as a meaningful labour source are contributing to increased inflation pressures. These are well demonstrated in ANZ’s June business outlook survey (ANZBO), which had a net 62.8% of respondents planning on increasing prices up 6% on May’s level and a record high, along with Inflation expectations rising to 2.41% (from 2.22%). The ANZBO also continues to show labour availability as the largest concern for businesses and increasing concern around non-wage cost inflation pressures (materials, supply chain etc.). We expect these pressures to remain over the coming months.

In summary we have (1) low unemployment (4.7%), (2) companies with record high intentions to raise prices, (3) inflation expectations building in general and (4) strong economic growth. The question that needs to be answered is if these features are transitory especially inflation, however should data continue to remain at these levels or indicate increasing pressures the RBNZ will find it increasingly hard to justify its unprecedented, historically loose monetary policy.

Fund Commentary

The fund performed well over the quarter, returning 0.22% and outperforming index which returned 0.08%. The risk has increased that RBNZ will need to act sooner than expected to meet its targets. With the risk of rising short-term rate rises, the increase of the funds duration position may shorten over the coming months. We will also seek to reduce the impact of these potential rate rises where possible through tilting the fund’s security composition towards securities that are less impacted by increasing rates, such as floating rate notes and term deposits.

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
All investments will be in New Zealand dollars		0.00% / 0.00	\$752m
			Strategy Launch
			October 2007

Compliance

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

Contact Us

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