

Factsheet 30 September 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

- Bank bill rates reverted to an upward trajectory on strong economic data and RBNZ comments suggesting a COVID lockdown alone would not be a showstopper for OCR increases.
- Second quarter GDP came in at a robust 2.8% QoQ significantly above market expectations of 1.1%.
- The RBNZ released a speech explaining their 'least regrets' approach to monetary policy providing some guidance on how uncertainty such as COVID lockdowns might influence policy decisions.

## Fund Highlights

- The fund performed well over the quarter, returning 0.19%. Additionally September's performance was also positive, returning 0.07% outperforming the 90-day bank bill index which returned 0.02%.
- The fund holds a longer than benchmark duration position to benefit from slope in the credit and bank bill curves.
- Duration is actively managed with fund positions reflecting the likely path of the OCR over the coming months along with what is priced into security yields.

## Performance

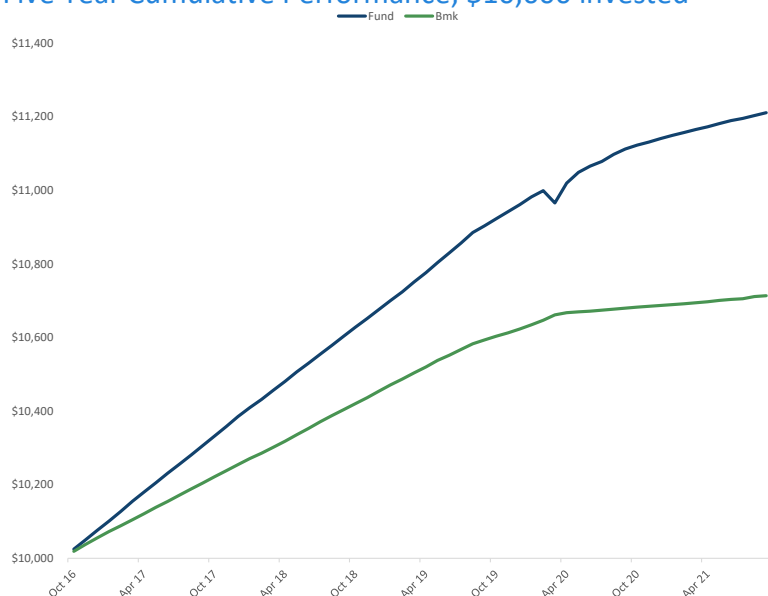
	One month	Three months	One year	Three years (p.a)	Five years (p.a)	Ten years (p.a)
Wholesale <sup>1</sup>	0.07%	0.19%	0.89%	1.87%	2.31%	3.14%
Benchmark <sup>2</sup>	0.02%	0.10%	0.32%	0.98%	1.39%	2.17%
Retail <sup>3</sup>	0.04%	0.11%	0.59%	1.54%	1.96%	
KiwiSaver <sup>3</sup>	0.03%	0.08%	0.45%	1.58%		

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<sup>1, 2</sup>



## 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.

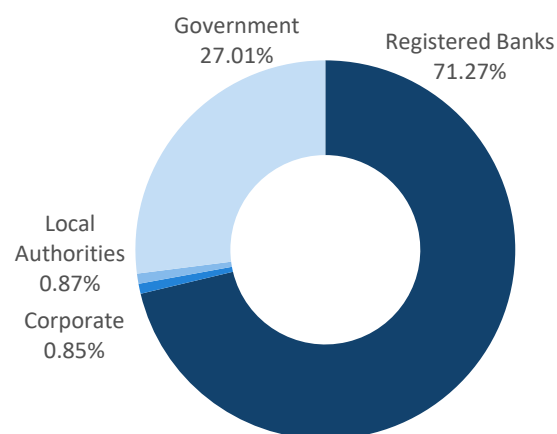
## Overview

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	13.82	AAA	27.01	Fund 104 days vs Benchmark 45 days
Tax Management NZ	13.65	AA	32.83	
NZ Tax Trading Co	13.36	A	40.16	
Kiwibank Ltd	13.32			<b>Yield to Maturity</b>
ASB Bank Ltd	9.91			Fund (gross) 1.01% vs Benchmark 0.49%

## Market Commentary

After the oscillations of August, bank bill rates reverted to an upward trajectory in September with strong economic data and comments from the Reserve bank contributing to this movement. 90-day bank bill rates started the quarter at 0.36% and the September month at 0.465%. The intra-quarter peak was 0.685% on 11 August and September intra-month peak was 0.67% on September 20, before pulling back to end the month at 0.645% in response to a Reserve Bank speech published on September 21. Key amongst the economic releases of the month was second quarter GDP which came in at a very robust 2.8% QoQ well ahead of market expectations of 1.1%. The strength of this print was such that when considered with existing economic data including: continuing inflation, low unemployment and signs of capacity constraints, the market could see the potential for a 50 basis point move in the OCR at the Reserve Bank’s October meeting (pricing in a 44% probability at peak). In our view this pricing was overly aggressive given the prevailing uncertainties around the extent and way out of lockdown conditions.

Perhaps somewhat in response to the market’s enthusiasm around large increases in the OCR, on September 21 the RBNZ released a speech detailing their ‘least regrets approach’ to monetary policy. This speech contained two key concepts. Firstly, they outlined what would be required to see them implement a large move in the OCR at a single meeting, stating when “the risks are heavily skewed in one direction”, they may, “take large steps to provide more confidence”. This is what they did at the start of the COVID pandemic before there were any learnings on how societies and economies would react. We have since learned that COVID was not an apocalyptic event that would see widespread economic hardship, corporate defaults, and stress. Society and businesses have proven to be remarkably adaptable and although there are clearly some sectors that have been very negatively impacted, other areas of activity have continued or surprised on the upside. The second key concept in the speech is that where there is a “typical amount of uncertainty, and the risks are evenly balanced”, the RBNZs approach is “inching in the right direction”. This certainly seems consistent of how one might view the current Delta outbreak from a risk perspective. Thinking back to 2020, we are reminded the 75 basis point cut taken in March was an emergency response to the first outbreak of the COVID pandemic where uncertainty of how societies and economies would react was elevated. As such, following this speech, our central view is it seems plausible the RBNZ will remove stimulus with three consecutive 25 basis point increases, with risk skewed to pauses along the way rather than more rapid 50 basis point plus moves. The RBNZ’s actual implementation of this approach will influence fund positions over the coming months, with potential opportunities arising should market pricing unjustifiably deviate from what is implied by this careful approach to OCR changes of ‘inching in the right direction’.

## Fund Commentary

The fund performed well over the quarter, returning 0.19%. The fund’s overall duration position ended the month marginally longer, however this hides key intra month tactical calls. We can divide the month into two key periods with the RBNZ’s speech detailing their ‘least regrets approach’ to monetary policy the pivot point. Prior to this speech the fund was reducing duration reflecting increasing risk of a 50 basis point OCR increase. Following the release of this speech we gained comfort that a 50 basis point move was unlikely, with a series of 25 basis point moves more likely along with the possibility of an unchanged OCR at each meeting. This presented opportunities to add duration in securities that were not fully reflecting this measured approach to OCR reviews of ‘inching in the right direction’. We will continue to take an active view on what is priced into security yields as these OCR review meetings eventuate over the coming months.

## Key Fund Facts

<b>Distributions</b>		<b>Estimated annual fund charges (incl. GST)</b>	
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
<b>Hedging</b>		<b>Buy / Sell spread</b>	<b>Strategy size</b>
All investments will be in New Zealand dollars		0.00% / 0.00	\$753m
<b>Strategy Launch</b>			
October 2007			
<b>Restrictions</b>			
Adult entertainment, gambling, fossil fuels, alcohol stocks, tobacco stocks. For more information please refer to the Statement of Investment Policy and Objectives (SIPO) which can be found on our website <a href="https://www.nikkoam.co.nz/invest/retail">https://www.nikkoam.co.nz/invest/retail</a> .			
<b>Exclusions</b>			
Securities that conduct activities listed on the Schedule to Cluster Munitions Prohibition Act 2009.			

## Compliance

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

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