

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

- The Reserve Bank (RB) raised its cash rate by 0.25% to 0.75% and explicitly stated it planned to take the OCR to the tighter side of neutral.
- The RB's updated OCR path has peak OCR at 2.6%, suggesting a further 7 to 8 0.25% OCR rises to the end of 2023.
- The Reserve Bank made statements consistent with their September speech on their 'least regrets' approach to monetary policy saying "considered steps... were the most appropriate", significantly raising the bar for any future 0.50% rises.

Fund Highlights

- The fund holds a longer than benchmark duration position to benefit from higher yields associated with 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.
- The fund holds a range of securities including floating rate notes which provide some protection against a rising cash rate.

Performance

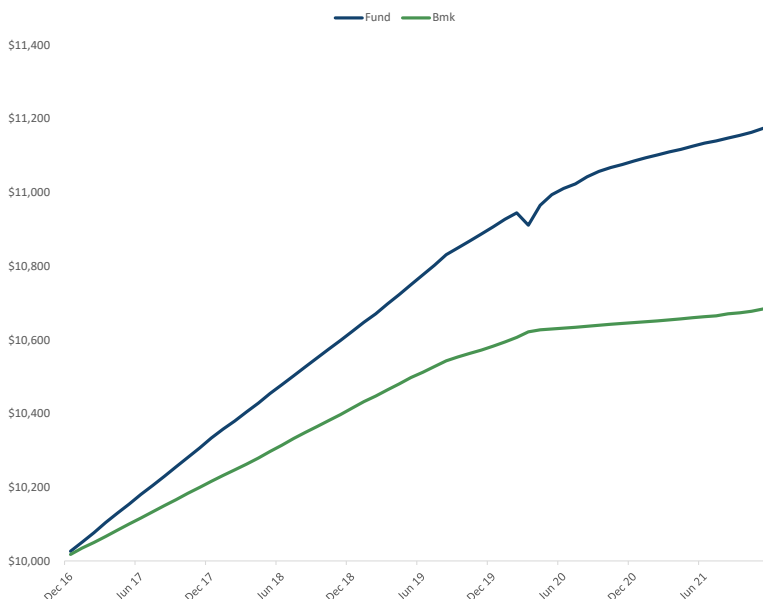
	One month	Three months	One year	Three years (p.a)	Five years (p.a)	Ten years (p.a)
Wholesale ¹	0.10%	0.24%	0.89%	1.78%	2.25%	3.10%
Benchmark ²	0.06%	0.12%	0.37%	0.91%	1.33%	2.13%
Retail ³	0.08%	0.17%	0.60%	1.45%	1.90%	
KiwiSaver ³	0.07%	0.13%	0.46%	1.45%		

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.

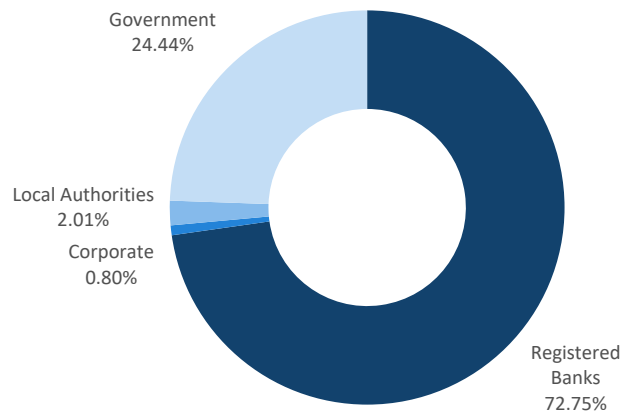
Overview

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	16.10	AAA	24.44	Fund 124 days vs Benchmark 45 days
Tax Management NZ Ltd (Govt IRD)	12.87	AA	45.93	
NZ Tax Trading Co (Govt IRD)	10.94	A	29.63	
ASB Bank Ltd	10.92			Yield to Maturity
ANZ Bank of New Zealand Ltd	9.91			Fund (gross) 1.28% vs Benchmark 0.78%

Market Commentary

Markets approached the Reserve Bank’s (RBNZ) November 24 Monetary policy statement with bets finely balanced between two camps, those expecting a 0.25% OCR rise and those that viewed a 0.50% rise as more appropriate. With pricing so finely balanced the one certainty from a markets perspective was a post meeting pricing reaction with one of these two groups disappointed. In the end the Reserve Bank implemented a 0.25% cash rate rise accompanied with commentary that significantly raised the bar for a 0.50% rise to occur stating “considered steps... were the most appropriate”. This move and accompanying statements proved a reality check for the aggressive rate hike pricing we had seen sending interest rates across the curve down between 0.10% and 0.15% post meeting.

Looking to the detail of the Reserve Bank’s statement there are several additional points worth highlighting. First, the Reserve Bank confirmed it would progressively raise the cash rate until monetary conditions were on the tighter side of neutral. They assess neutral as being around 2%. Second, they provided an updated OCR path with peak OCR at 2.6%, suggesting a further 7 to 8 0.25% OCR rises to the end of 2023. Finally, in regard to CPI inflation RBNZ’s forecasts see inflation remaining elevated in the near term with 1.2% pencilled in for Q4 and 0.9% for Q1 along with inflation remaining above the mid point of the RBNZ’s target band for an extended time. This provides a reference point to interpret upcoming inflation prints and should somewhat constrain any aggression in short term pricing should inflation remain elevated.

From a portfolio positioning perspective there are some key takeaways. One, as previously mentioned the hurdle for 0.50% OCR rises has been raised, in the absence of a change in economic performance any return to pricing in 0.50% rises presents a trading opportunity. Two, we should expect continued regular OCR rises with risks from moving to a COVID endemic environment not sufficient alone to derail this plan. Three, we can take some comfort that the Reserve Bank’s moves are highly consistent with their recent September speech detailing their least regrets approach to monetary policy.

Fund Commentary

The fund performed well in November returning 0.10% outperforming the 90-day bank bill index which returned 0.06%. The fund’s duration position ended the month marginally longer as we continued to pursue a barbel strategy. The Reserve Bank’s decision to increase the OCR by 0.25% was highly consistent with their September speech on their approach to monetary policy. Further, given the environment this decision was made under included very elevated inflation and extremely low unemployment the Reserve Bank’s decision to take “considered steps” effectively raises the bar for what is required for a 0.50% rate rise to occur. We will continue to take an active view on what is priced into security yields as OCR review meetings occur over the coming months however given the increased clarity from the Reserve Bank we expect our duration position is likely to fade from here.

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	\$798.3m
Strategy Launch			
October 2007			
Restrictions			
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 https://www.nikkoam.co.nz/invest/retail .			
Exclusions			
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 month.

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