Factsheet 30 September 2023

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

- New Zealand's economy grew 0.9% in Q2, well above market expectations of a 0.4% growth rate.
- Revisions to first quarter GDP revised away NZ's technical recession with Q1 upwardly revised to +0.0 from its prior -0.1%.
- In response to this strong GDP performance along with other data resilience, markets increased bets that further OCR increases will be pursued by the RBNZ.

Fund Highlights

- The fund holds a longer than benchmark duration position reflecting our view that the RBNZ's hiking cycle is complete.
- We are looking to maintain the fund's long duration and add to it reflecting our view the next significant move in the cash rate is more likely to be down than up.
- Credit quality remains high and is expected to perform well in the face of a recession.

Performance

	One month	Three months	One year	Three years (p.a)	Five years (p.a)	Ten years (p.a)
Wholesale[1]	0.50%	1.58%	5.48%	2.72%	2.58%	3.06%
Benchmark[2]	0.46%	1.42%	4.96%	2.25%	1.87%	2.27%
Retail[3]	0.46%	1.50%	5.16%	2.41%	2.26%	
KiwiSaver[3]	0.45%	1.49%	5.02%	2.27%	2.22%	

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.

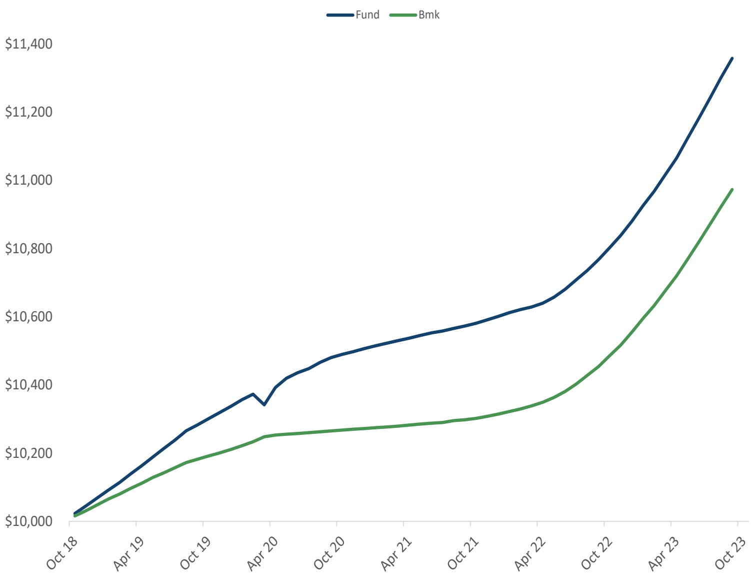
Overview

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

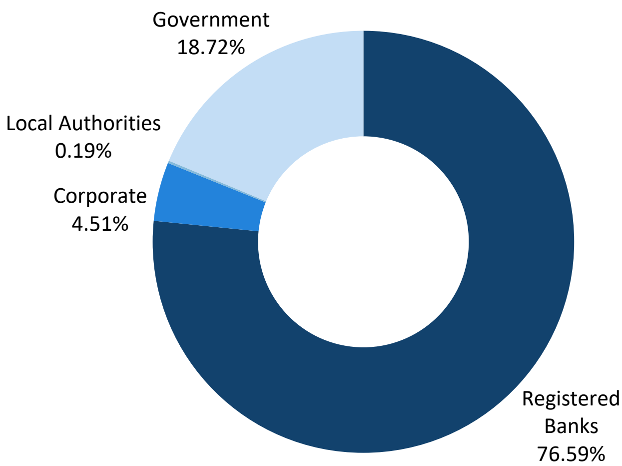
Objective

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	(%)
Westpac New Zealand	15.65
Tax Management NZ	11.72
ANZ Bank New Zealand	8.23
ASB Bank	7.04
NZ Tax Trading Co	7.00

Credit Quality	(%)
AAA	18.72
AA	42.54
A	38.74

Duration
Fund 132 days vs Benchmark 45 days

Yield to Maturity
Fund (gross) 6.2% vs Benchmark 5.65%

Market Commentary

With no Reserve Bank (RBNZ) meeting scheduled in September the focus of the month was one of data watching with second quarter GDP the most keenly anticipated tier-one data release. Expectations were for a soft outcome, with consensus sitting around a +0.4%, this being roughly equivalent to no growth on a per capita basis once accounting for the near 87,000 new migrants in the year to June. With this backdrop, a second quarter GDP number of +0.9% was a stunner, well above market expectations, higher than the RBNZ's August MPS forecast of +0.5% and marginally above the most bullish forecaster who was calling +0.8%.

As to what this means from an RBNZ standpoint, the data undoubtably shows a more resilient economy than expected. This notwithstanding, we believe the RBNZ will look through this strength when reviewing policy settings at their next meeting for several key reasons; (1) the data is backward looking and somewhat stale in representing what happened between 3 and 6 months ago; (2) on a per capita basis the output is weak, this shows monetary policy is having an impact; and (3) it is difficult to separate signal from noise in respect to any rebound attributable to Cyclone Gabrielle. On top of these factors, one must also account for monetary policy lag, which continues to build providing further headwinds to consumption.

As to GDP market reactions, 90-day bills increased 9bps over the month to end at 5.74% and bets for a resumption of OCR hikes were increased. We understand and accept the logic for this pricing, in general, data resilience in this area increases the importance of future tier-one data outputs, especially inflation and labour market indicators. Nevertheless, we continue to hold the view that the hurdle for further hikes is high, and that the RBNZ will continue to hold the line and let monetary policy lag play out in the coming months. We also note the outcome of the upcoming general election in respect to fiscal policy impulse creates additional uncertainty which in turn gives weight to advocating an on-hold stance for the remaining two OCR review meetings of 2023. This could provide opportunities to lock in elevated rates over the remaining months of the year albeit with an increasingly close eye on any further signs of economic resilience.

Fund Commentary

The fund performed well over quarter to September returning 1.58% outperforming its benchmark the 90-day Bank Bill Index which returned 1.42%.

At its August MPS the RBNZ sent an unequivocal message that it believes it has done enough to get inflation under control and is willing to let monetary policy lag playout. Since then, data has been in aggregate stronger than the RBNZ's forecasts creating some risk to this stance. This notwithstanding, monetary policy has long and variable transmission lags and there are signs that excess demand is being suppressed. This gives weight to the argument that the RBNZ should remain on hold for the remainder of 2023. In consideration of this the fund continues to be positioned long as; (1) we view the hurdle for further OCR increases as high, and (2) there is slope in the bills/swap curve and the credit curve for duration meaning we are somewhat compensated for risks of a resumption of OCR increases should our core thesis prove incorrect. There are two remaining OCR review meetings in 2023, one at the start of October and another on November 29, thereafter there is a long break between meetings with the first of 2024 not scheduled until February 28th a gap of three months. Our market commentary details why the hurdle for OCR hikes in 2023 is high. With markets increasing bets that OCR hikes may resume, this could provide opportunities to lock in elevated rates over the remaining months of the year albeit with an increasingly close eye on any further signs of economic resilience.

Key Fund Facts

Distributions

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

Estimated annual fund charges (incl. GST)

Wholesale:	Negotiated outside of unit price
Retail:	0.30%, refer PDS for more details
KiwiSaver:	0.30%, 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	$950.6m	October 2007

Exclusions: Controversial weapons.

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.

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

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