

# NIKKO AM NZ CASH STRATEGY

Applies to: Nikko AM Wholesale NZ Cash Fund and Nikko AM NZ Cash Fund (retail) and Nikko AM KiwiSaver Scheme NZ Cash Fund

## Market Overview

- November saw a slight steepening of the bank bill curve, however no movement in term deposit rates.
- The Reserve Bank (RBNZ) reiterated its expectation to keep the Official Cash Rate (OCR) at current levels into 2020 and continued to note the next move "could be up or down". Risk remains to the upside as a down move required material weakness in hard data such as GDP.
- Continue to position the fund long, we expect the RBNZ to give growth a chance, allowing inflation to move inside the band and to use macro prudential tools to manage the economy.

## Fund Highlights

- The Cash Fund continues to perform well, benefiting from a higher yield than its benchmark.
- Fund returns have been stable over the past year.
- Current level of returns are likely to be maintained over the rest of 2018 and 2019.

## Performance

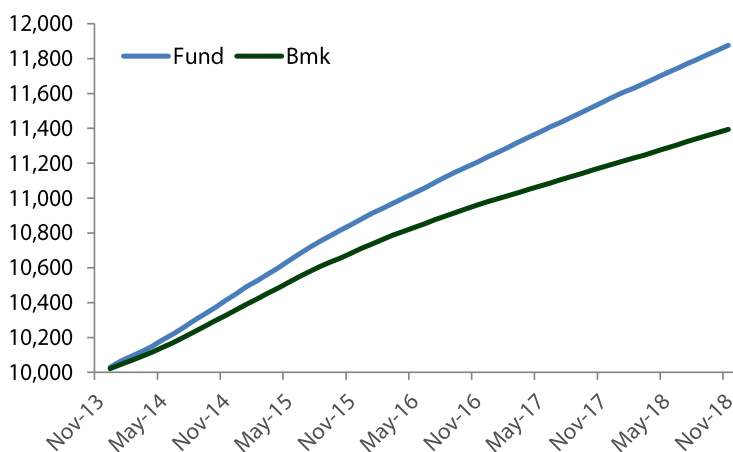
	One month	Three months	One year	Three years (p.a)	Five years (p.a)	Ten years (p.a)
Wholesale <sup>1</sup>	0.22%	0.69%	2.83%	3.07%	3.50%	3.89%
Benchmark <sup>2</sup>	0.15%	0.47%	1.94%	2.17%	2.65%	2.82%
Retail <sup>3</sup>	0.19%	0.59%	2.44%	2.70%		
KiwiSaver <sup>3</sup>	0.22%	0.70%				

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<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.

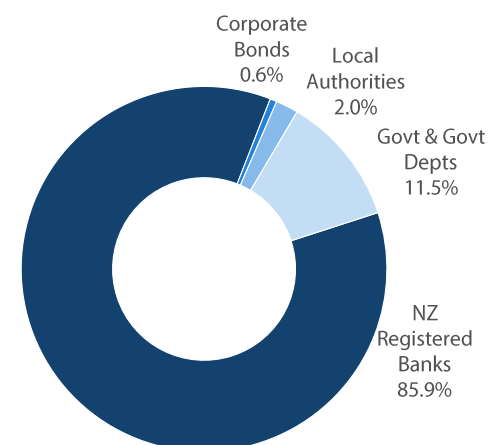
## Overview

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



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Top 5 Issuers	(%)	Credit Quality	(%)	Duration
Westpac New Zealand	23.31	AAA	0.16	Fund 99 days vs Benchmark 45 days
Kiwibank New Zealand	13.18	AA	71.79	
ANZ Bank New Zealand	12.75	A	28.04	<b>Yield</b>
NZ Government and Government Depts	11.49	BBB	-	Fund (gross) 2.83% vs Benchmark 1.91%
Bank of New Zealand	8.18			

## Market Commentary

The Reserve Bank's November Monetary Policy Statement (MPS) left the OCR unchanged and reiterated an expectation to remain on hold into 2020. The tone of the MPS was more upbeat than the prior month "...our next OCR move could be up or down" removed and replaced with a more sanguine comment around "upside and downside risks" and reference to a data dependent approach. Risk remains to both directions however a downward movement looks less likely and would likely require material weakness in hard economic data such as GDP or employment. On the data side we continue to see inflation slightly below the mid-point of the Reserve Bank's (1-3%) policy target agreement (PTA). Inflation has not gained traction despite a number of supportive factors including; (1) the lowest unemployment rate since 2008, (2) continued inflation plus wage awards in the public sector and increases in the minimum wage, (3) supportive fiscal policy and (4) elevated fuel prices. Its notable the PTA now includes twin targets of price stability and employment outcomes. A key component in the appointment of Adrian Orr as the Governor likely included buying into this strategy. This twin mandate is supportive of allowing inflation to move within the band to give growth a chance and allow full employment to continue.

## Fund Commentary

The fund continued to outperform its benchmark returning 0.22% compared to 0.15% generated by the 90 Day Bank Bill index. A higher portfolio yield was the main contributor with the longer than benchmark duration also adding value. With relatively low risk of interest rates rising in the front end of the yield curve we remain disposed to a long duration position with its associated gains in yield. We continue to favour holding term deposits up to 1 year in maturity as they offer superior relative returns. Liquidity is actively managed by ensuring a significant proportion of the fund is readily marketable securities and by staggering term deposit maturities. The fund is invested in high quality credit names and we believe a higher yield on the fund will deliver an attractive level of return relative to the fund's benchmark, much in the same way it has delivered a good outcome over recent months and years.

## Key Fund Facts

<b>Distributions</b>		<b>Estimated annual fund charges</b>		
Wholesale fund:	Calendar quarter	Wholesale:	Negotiated outside of unit price	
Retail fund:	Calendar quarter	Retail:	0.35%, refer PDS for more details	
KiwiSaver fund:	Does not distribute	KiwiSaver:	0.45%, refer PDS for more details. Fee waived until 31/3/2019	
<b>Hedging</b>		<b>Buy / Sell spread</b>	<b>Strategy size</b>	<b>Strategy Launch</b>
All investments will be in New Zealand dollars		0.00% / 0.00	\$783.1m	October 2007

## Compliance

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

## Contact Us

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