

Factsheet 28 February 2019

# 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

- The RBNZ reiterated its expectations to keep the OCR on hold for the foreseeable future.
- A slightly more dovish position was taken with the RBNZ pushing its tightening out by six months to mid-2021.
- In a post Monetary Policy Statement (MPS) briefing, RBNZ Deputy Geoff Bascand affirmed that the RBNZ proposal to increase bank capital requirements could lead to an eventual rate cut.

## Fund Highlights

- The Cash Fund continues to perform well, benefiting from a higher yield than its benchmark.
- We favour investing in one year maturities as they continue to provide the highest returns as rates remain stable for the year.
- The current level of return will slightly reduce over the coming months as longer dated securities mature and are rolled out at current market rates.

## Performance

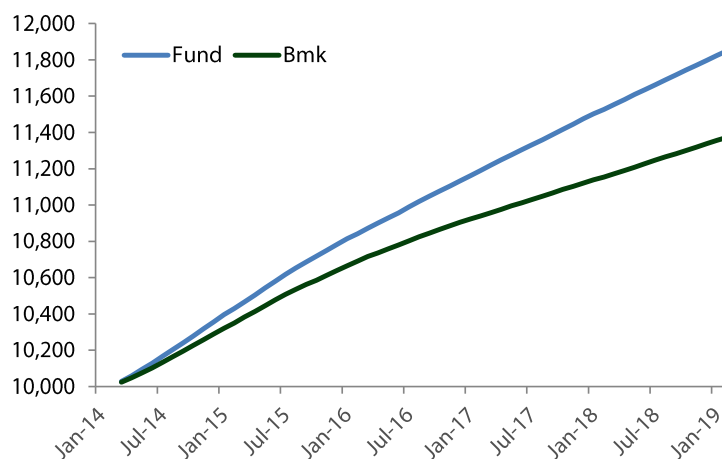
	One month	Three months	One year	Three years (p.a)	Five years (p.a)	Ten years (p.a)
Wholesale <sup>1</sup>	0.22%	0.68%	2.80%	3.01%	3.45%	3.78%
Benchmark <sup>2</sup>	0.15%	0.49%	1.96%	2.08%	2.61%	2.72%
Retail <sup>3</sup>	0.18%	0.58%	2.40%	2.64%		
KiwiSaver <sup>3</sup>	0.22%	0.69%				

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.

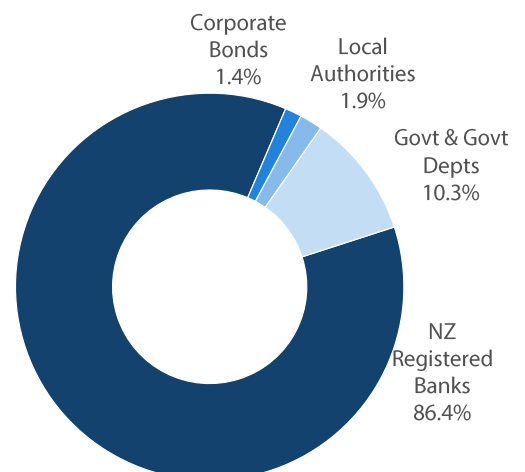
## Overview

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



## NIKKO AM NZ CASH STRATEGY

Top 5 Issuers	(%)	Credit Quality	(%)	Duration
Westpac New Zealand	19.38	AAA	0.16	Fund 98 days vs Benchmark 45 days
Kiwibank New Zealand	16.26	AA	67.97	
ANZ Bank New Zealand	11.40	A	31.87	Yield
Bank of New Zealand	11.18	BBB	-	Fund (gross) 2.50% vs Benchmark 1.85%
NZ Government and Government Depts	10.33			

## Market Commentary

In its February Monetary Policy Statement, the Reserve Bank reiterated it expects to keep the OCR on hold for the foreseeable future. A slightly more dovish stance was taken relative to the November statement with the time frame for an expected tightening pushed out by six months to mid-2021.

The RBNZ is keeping its options open regarding the direction of the next move re-introducing a reference in its MPS that the “next OCR move could be up or down”. We view the most likely outcome as no change over the coming 12 months, with the risk of a cut more likely than a rise. In relation to this, we note the new Governor is comfortable letting inflation vary within the 1-3% band, a departure from the behaviour of previous Governors who tended to target the midpoint of the band more stringently. It was also of interest that the RBNZ Deputy Governor announced that its proposal to increase bank capital requirements may result in a marginal tightening in financial conditions and as such could lead to an eventual OCR cut.

## Fund Commentary

With a 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 in readily marketable securities and by staggering term deposit maturities. The fund remains invested in high-quality credit names, we believe constructing a portfolio focusing upon higher yield will deliver an attractive level of return relative to the fund’s benchmark.

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. We do not expect significant movement in New Zealand short term interest rates over the next year so we will continue the strategy of maintaining a high portfolio yield relative to the 90-day bank bill index.

## Key Fund Facts

### Distributions

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

### Estimated annual fund charges

Wholesale: Negotiated outside of unit price  
Retail: 0.35%, refer PDS for more details  
KiwiSaver: 0.45%, refer PDS for more details. Fee waived until 31/3/2019

### Hedging

All investments will be in New Zealand dollars

### Buy / Sell spread

0.00% / 0.00

### Strategy size

\$802.7m

### Strategy Launch

October 2007

## Compliance

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

## Contact Us

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