

# 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 Reserve Bank surprised the market by cutting the OCR by 50 basis points, an aggressive move showing a strong willingness to cut to meet inflation and employment targets.
- Increasing concerns around global growth and trade tension along with softer domestic data continue to influence the market.
- Bank bill rates fell by between 30 and 35 basis points, larger movements shown in shorter term bills.

## 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. The fund has been positioned longer than its benchmark resulting in performance benefits following OCR rate cuts.
- Returns will reduce over coming months as longer dated securities mature and the proceeds are reinvested at current market rates.

## Performance

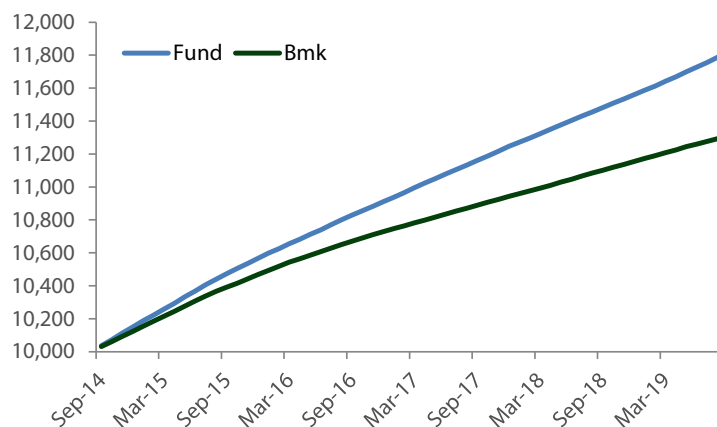
	One month	Three months	One year	Three years (p.a)	Five years (p.a)	Ten years (p.a)
Wholesale <sup>1</sup>	0.27%	0.76%	2.89%	2.96%	3.34%	3.73%
Benchmark <sup>2</sup>	0.15%	0.43%	1.88%	1.97%	2.46%	2.66%
Retail <sup>3</sup>	0.24%	0.66%	2.52%	2.59%	2.98%	
KiwiSaver <sup>3</sup>	0.27%	0.75%	2.91%			

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.

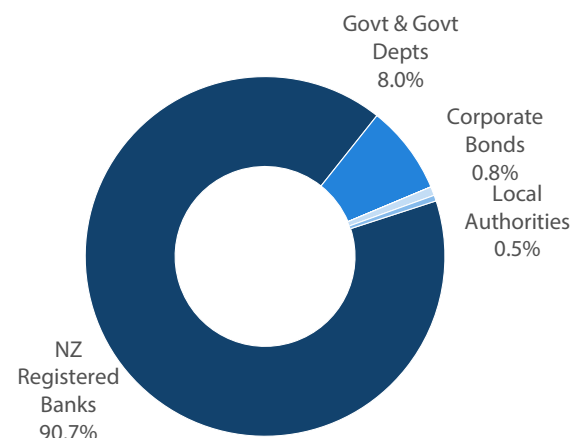
## Overview

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	20.38	AAA	-	Fund 122 days vs Benchmark 45 days
Kiwibank Limited	19.11	AA	62.39	
ASB Bank Limited	10.79	A	37.61	<b>Yield</b>
NZ Government and Government Depts	8.00	BBB	-	Fund (gross) 2.40% vs Benchmark 1.15%
Rabobank New Zealand	6.93			

## Market Commentary

The Reserve Bank (RBNZ) provided a massive surprise by cutting the cash rate by 50 basis points. A cut of this size is highly unusual and historically has only been implemented in response to significant events such as the September 11 attacks of 2001, the global financial crisis of 2008/9 and the Christchurch earthquake of 2011. The RBNZ refrained from providing explicit guidance around future cuts however its actions show a strong willingness to do what it takes to support New Zealand’s economy and meet its inflation and employment targets.

In response to the cut a significant front-end lead rally occurred in New Zealand interest rates with bank bill rates falling by between 30 and 35 basis points during the month with larger moves for short maturities. Upcoming meetings for the RBNZ are an Official Cash Rate (OCR) meeting on 25 September followed by Monetary Policy Statement meetings on 13 November and 12 February. Market pricing suggests consensus views are an additional cut will occur as part of one of the Monetary Policy Statement meetings rather than the September OCR meeting. At August month end the market was pricing in a 15% probability of a 25 basis point cut occurring at the September meeting, a 78% probability for the November meeting, and 122% probability (more than fully priced in) for the February 2020 meeting.

The current fall in rates seems justified, increased uncertainty over trade is dragging down global growth potential and soft domestic economic data prints continue heightening the risk that businesses will cut or defer investment and weakening consumer sentiment. This is forming a feed-back loop that reinforces the likelihood of further central bank rate cuts.

## Fund Commentary

We continue to favour holding term deposits up to one year in maturity as they offer superior returns and short term rates may continue to fall. Liquidity is actively managed by ensuring a significant proportion of the fund is in readily marketable securities in high credit quality names and by staggering term deposit maturities.

The fund continued to outperform its benchmark returning 0.27% compared to 0.15% generated by the 90-Day Bank Bill index. A higher portfolio yield and longer duration position positively contributed to performance.

## 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: 0.35%, refer PDS for more details  
 KiwiSaver: 0.46%, refer PDS for more details. Fee waived until 30/9/2019

### Hedging

All investments will be in New Zealand dollars

### Buy / Sell spread

0.00% / 0.00

### Strategy size

\$860.95m

### Strategy Launch

October 2007

## Compliance

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

## Contact Us

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