

Factsheet 29 February 2020

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

- Coronavirus has spread from the Chinese city of Wuhan to 70 countries and territories. With the outbreak no longer geographically constrained fear has ensued and funds have flowed into safe assets such as high quality fixed income securities. Rates have correspondingly dropped to record low levels for a number of sectors and securities.
- The market has begun to aggressively price a monetary policy response with a more than a full cut priced in for the next OCR meeting.
- A monetary policy response in the form of a rate cut may not be the best solution to the various economic consequences of a global event such as coronavirus.

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 likely reduce over coming months as longer dated securities mature and the proceeds are reinvested at current market rates.

Performance

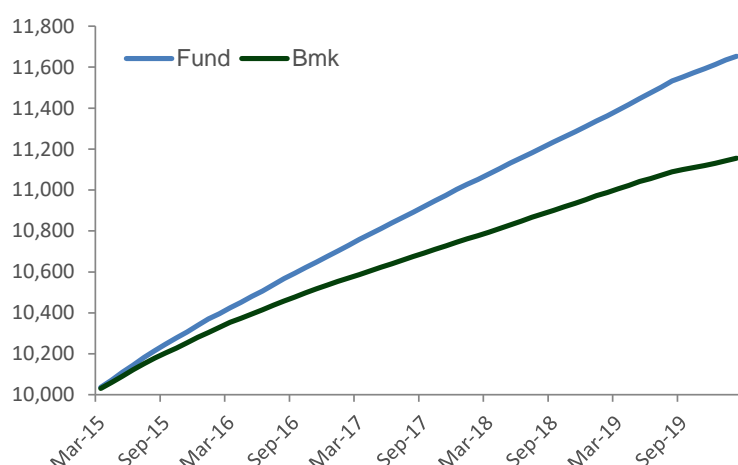
	One month	Three months	One year	Three years (p.a)	Five years (p.a)	Ten years (p.a)
Wholesale ¹	0.16%	0.52%	2.57%	2.79%	3.11%	3.64%
Benchmark ²	0.12%	0.32%	1.52%	1.81%	2.21%	2.58%
Retail ³	0.13%	0.43%	2.19%	2.42%	2.73%	
KiwiSaver ³	0.11%	0.40%	2.33%			

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.



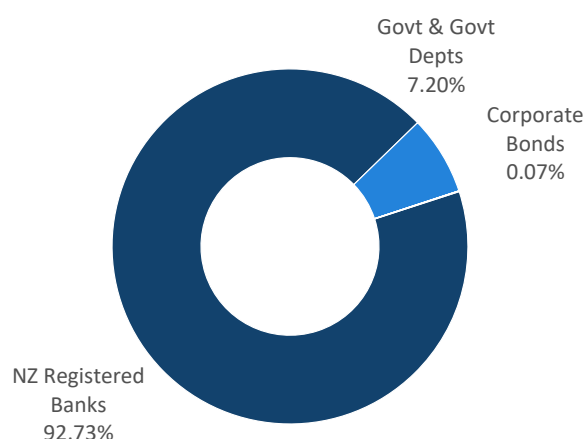
Overview

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	24.04	AAA	-	Fund 96 days vs Benchmark 45 days
Kiwibank	15.45	AA	60.48	
ASB Bank	10.86	A	39.52	Yield
Industrial & Commercial Bank of China	6.55%	BBB	-	Fund (gross) 2.17% vs Benchmark 1.06%
HSBC Bank New Zealand	5.93%			

Market Commentary

Coronavirus has spread from the Chinese city of Wuhan to 70 countries and territories with instances now reported on every populated continent around the world. With the outbreak no longer geographically constrained fear has ensued and funds have flowed into safe assets such as high quality fixed income securities. Rates have correspondingly aggressively dropped with bank bills from 3-month out to 1-year down by 21 to 22 basis points (bps) as of 28th February.

The market has quickly moved to price in an expectation of a rate cut by the RBNZ. As of month end 11bps of cuts were priced for the next OCR meeting on March 25. As of the time of writing this commentary this has moved to 34bps of cuts. This notwithstanding, a rate cut is not a foregone conclusion and is certainly no panacea to the economic ailments of the coronavirus outbreak.

Economies are currently working through the impacts of both supply and demand shocks. Global supply chains have come to a halt as China’s factories have either shut or are working at minimal capacity levels as a result of stringent quarantine regimes. On the demand side consumers in not only China but around the world have become wary of travelling and socialising where contact with other people in any number is likely. A rate cut to address these two areas may be of limited effectiveness – it will not restart supply chains nor jolt people out of risk adverse behaviour. Of greater importance will be that liquidity is retained in the financial system – there is potential for both businesses and consumers to see cash flow related stress as a result of a loss or reduction in their incomes. This could potentially be addressed through other monetary policy tools that encourage the continued provision of liquidity throughout the crisis or through a fiscal response from the Government.

In this environment rate cuts remain more likely than no change in rates and a rate rise is certainly off the table. We remain comfortable holding a long duration position of high quality credit names as this crisis plays out. The consideration of economic fundamentals and concentrating upon the medium term outlook is important in times such as these when fear driven markets often price assets for extreme outcomes.

Fund Commentary

We continue to favour holding term deposits up to one year in maturity as they offer superior relative returns and will perform well if interest rates fall further. 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 0.16% compared to 0.12%. With short term rates significantly down over the month, a longer duration positioning positively contributed to February’s return. Over time we expect a longer duration with its associated pickup in yield to positively contribute to performance.

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:	0.35%, refer PDS for more details	
KiwiSaver fund:	Does not distribute	KiwiSaver:	0.46%, 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	\$816.97m	October 2007

Compliance

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

Contact Us

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