

# 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

- On March 11 the World Health Organization declared Covid-19 a Pandemic. Various global central banks quickly responded by easing, including the RBNZ which cut the official cash rate by 0.75% to a record low of 0.25% in a non-scheduled meeting on March 16.
- On March 23 the RBNZ announced a \$30 billion quantitative easing program to be implemented over a 12 month period.
- Despite the cash rate cut, interest rates on a number of short-term securities increased over the month due to credit spread expansions.

## Fund Highlights

- The cash fund is well positioned in the current environment with holdings in high quality credits.
- Returns for the month of March were impacted by expanding credit margins resulting in a negative return. On the positive side the credit quality of the fund is very sound and these are not realized losses but rather a valuation effect that will reverse overtime.
- With a lack of liquidity bid ask spreads have expanded creating a buyers' market. The fund was well positioned for this and able to invest existing liquidity, maturities and inflows across the month whilst avoiding selling entirely – benefits will accrue over the coming months.

## Performance

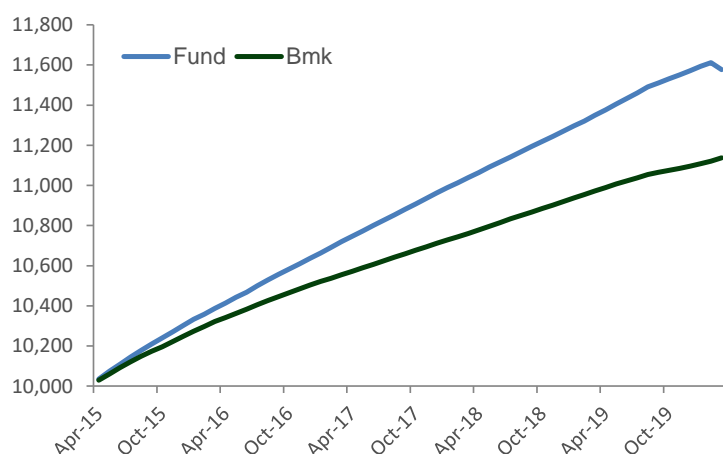
	One month	Three months	One year	Three years (p.a)	Five years (p.a)	Ten years (p.a)
Wholesale <sup>1</sup>	-0.30%	0.04%	2.00%	2.59%	2.97%	3.58%
Benchmark <sup>2</sup>	0.14%	0.36%	1.50%	1.81%	2.18%	2.57%
Retail <sup>3</sup>	-0.32%	-0.04%	1.65%	2.23%	2.60%	
KiwiSaver <sup>3</sup>	-0.33%	-0.07%	1.76%			

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.

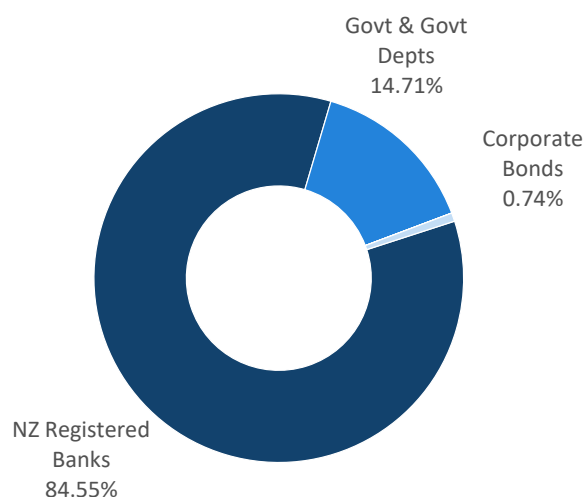
## Overview

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	24.42%	AAA	-	Fund 88 days vs Benchmark 45 days
NZ Government	14.71%	AA	63.62	
Kiwibank	11.26%	A	36.38	Yield
Industrial & Commercial Bank of China	6.86%	BBB	-	Fund (gross) 2.02% vs Benchmark 0.39%
ASB Bank	6.49%			

## Market Commentary

On March 11 the World Health Organization declared Covid-19 a Pandemic. Central banks quickly reacted both globally and domestically. The US Federal Reserve cut rates to 0% in an emergency meeting on March 15, the RBNZ followed cutting by 0.75% to a record low of 0.25% on March 16. Despite this response markets reacted poorly becoming illiquid, the yield curve shifted up for mid and longer tenors and credit spreads significantly expanded. Bid ask spreads increased by a factor of up to 10 creating a buyers’ market where any liquidity was highly valued. Concerns began to build that the market was dysfunctional and an intervention would be required to restore stability and liquidity.

On March 23 the Reserve Bank announced a quantitative easing program allowing it to purchase up to 30 billion dollars of New Zealand government securities on the secondary market over the coming 12 months. This restored a semblance of stability and liquidity and the government yield curve shifted downwards. Credit spreads however remained elevated and liquidity in non-governments although improved, remained weak. Consequently despite the cash rate falling to 0.25% yields on most non-government assets actually increased.

## Fund Commentary

The fund ended the quarter up 0.04%. Despite the OCR cut, yields on short non-government securities increased as credit margins significantly widened. This impacted the fund through mark-to-market losses with the fund returning -0.30% for the month and underperformance relative to its benchmark which returned 0.14% unaffected by these expanding credit margins. It is worth noting that with yields so low any negative capital moves are not offset by the monthly portfolio yield accrual to the same extent they would have been in the higher interest rate environments of the past. On the positive side the credit quality of the fund is very sound and that these are not realized losses but rather a valuation effect that will reverse overtime. In addition to this the fund has been well positioned to participate as a buyer in this market investing existing liquidity, maturities and inflows across the month whilst avoiding selling entirely. With liquidity highly valued benefits of this action will accrue to the fund over the coming months.

## 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

### Hedging

All investments will be in New Zealand dollars

### Buy / Sell spread

0.00% / 0.00

### Strategy size

\$857.9m

### Strategy Launch

October 2007

## Compliance

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

## Contact Us

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