

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

- The Reserve Bank's (RBNZ) 'Large scale asset purchase program' (LSAP) injected liquidity into the system directly, bringing down yields for NZ Government and NZ LGFA bonds through its purchases. With investor confidence in market liquidity restored buyers returned to other sectors of the debt capital market chasing yields down across the board.
- The banking system rapidly became full of liquidity – supply of funds from deposits increased as retail investors sought investment security and increased savings in uncertain times and demand for new credit fell away as the Covid-19 crisis brought house sales, new builds and renovations to a standstill.
- In aggregate the above two items resulted in bank bill rates falling to record lows and credit spreads tracing back around two-thirds of their recent expansion.

Fund Highlights

- The fund saw a strong outperformance in April.
- With a longer than benchmark duration position the fund will continue to benefit from existing positions taken when interest rates and credit spreads were higher.
- Returns will moderate over the coming months as proceeds from maturities are reinvested at current prevailing market interest rates.

Performance

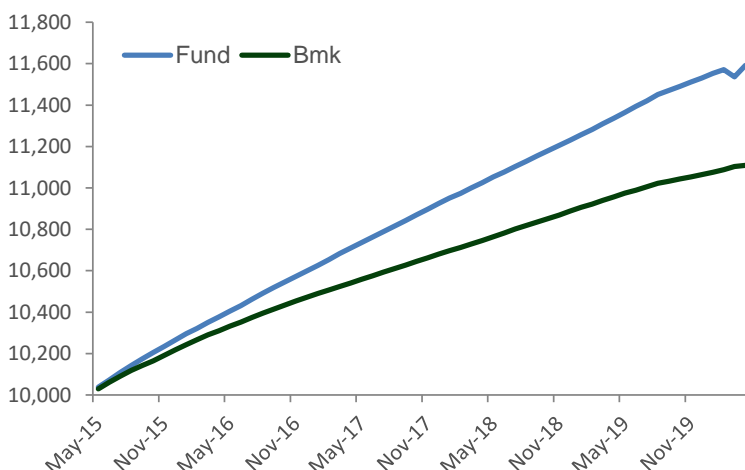
	One month	Three months	One year	Three years (p.a)	Five years (p.a)	Ten years (p.a)
Wholesale ¹	0.49%	0.34%	2.26%	2.68%	3.00%	3.58%
Benchmark ²	0.05%	0.31%	1.40%	1.77%	2.13%	2.55%
Retail ³	0.46%	0.27%	1.89%	2.31%	2.62%	
KiwiSaver ³	0.45%	0.23%	1.97%			

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.



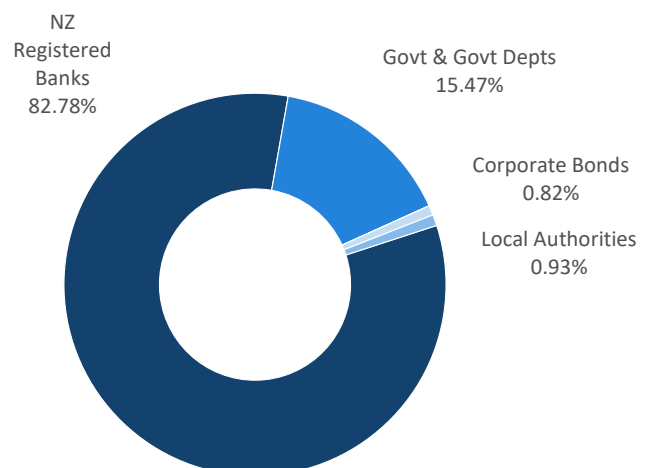
Overview

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	17.86%	AAA	-	Fund 73 days vs Benchmark 45 days
Kiwibank	11.52%	AA	63.20	
NZ Tax Trading	9.28%	A	36.80	Yield
Bank of New Zealand	9.12%	BBB	-	Fund (gross) 1.91% vs Benchmark 0.26%
Industrial & Commercial Bank of China	6.99%			

Market Commentary

The RBNZ injected liquidity into the system directly, bringing down yields for NZ Government and NZ LGFA bonds through large bond purchases from the market. With investor confidence in market liquidity restored buyers returned to other sectors of the debt capital market chasing yields down across the board. This yield retrenchment was seen in both underlying reference interest rates such as swap and bank bill and credit spreads - investors’ demand for taking on incremental levels of risk. In the short end of the rates market April saw the 90-day bank bill rate fall 0.22% to end the month at 0.27% only marginally above the official cash rate while at the 1-year term swap rates fell 0.31% to end the month at then a record low of 0.20%.

The reduction in underlying short interest rates was driven by a number of factors, however can be distilled to supply and demand characteristics. On the supply side the banking system was seeing inflows of deposits notably from the retail sector which in light of an increasingly uncertain economic future and deteriorating job security sought out the safety of bank deposits and increased savings. At the same time the Covid-19 lockdown resulted in demand for credit for house purchases, builds and renovations to precipitously fall. Economic uncertainty will remain as the country progressively moves out of lockdown with a slowing economy and weak job market continuing to put a dampener on credit demand. The above imbalance of supply and demand was clearly seen in bank standing facility balances at the RBNZ which increased from their usual level of ~7 billion to near 30 billion by the end of the month.

With banks having sufficient funding in the form of deposits and reduced credit demand, it is expected bank primary issuance of bonds will be reduced and delayed. There are significant maturities of bonds in the coming three months with circa \$1.9 billion of senior NZ bank bonds and \$3.1 billion of NZ Kauri bonds (high grade sovereign and supranational issuers) due to mature. These proceeds along with funds that will continue to flow into the market from the retail sector and Kiwisaver will be looking for similar high grade credit (including bank paper) to purchase. This will support continued low bank bill rates, with senior bank bonds increasingly scarce and a potential reduction of Kauri bonds on issue. With these features in place and the RBNZ operating a very accommodative monetary policy stance it appears that underlying interest rates are set to stay at record lows for the near term. In this environment we expect a longer duration position and exposure to high quality credit will perform well.

Fund Commentary

The fund performed well across the month returning 0.49% benefiting from the credit spread retracement and its longer than benchmark duration position. This is a strong outperformance against the 90-day bank bill index which returned 0.05%.

Outperformance is expected to continue with the fund continuing to benefit from its longer than benchmark duration position and further contractions in credit spreads as existing holdings time-to-maturity shortens.

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	\$863.9m	October 2007

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

Contact Us

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