

# 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

- Credit growth remains weak in the banking system and new lending subdued with job security and loss of income driving factors.
- Supply of funding into the banking system continues to be high. Settlement accounts with the RBNZ have fallen from their peak of \$31.5 billion in early May to \$26 billion at month end. This continues to be significantly higher than the more normal long run level of \$7 to \$8 billion.
- With supply of funding strong and demand for credit slowing rates remain depressed. The bank bill curve is flat at or around the OCR level across all terms, and credit margins in the commercial paper market are below pre-Covid levels.

## Fund Highlights

- The fund continues to benefit from tightening credit margins and positions taken during the peak of the Covid crisis.
- 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

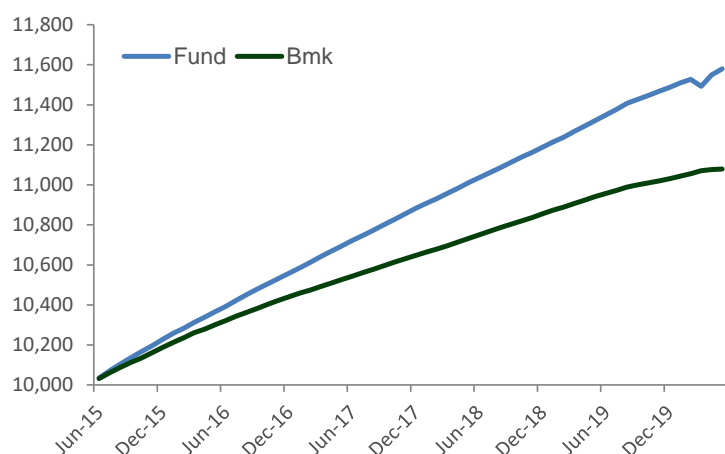
	One month	Three months	One year	Three years (p.a)	Five years (p.a)	Ten years (p.a)
Wholesale <sup>1</sup>	0.26%	0.45%	2.27%	2.68%	2.98%	3.57%
Benchmark <sup>2</sup>	0.02%	0.22%	1.25%	1.72%	2.07%	2.53%
Retail <sup>3</sup>	0.23%	0.37%	1.89%	2.31%	2.61%	
KiwiSaver <sup>3</sup>	0.23%	0.35%	1.95%			

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.

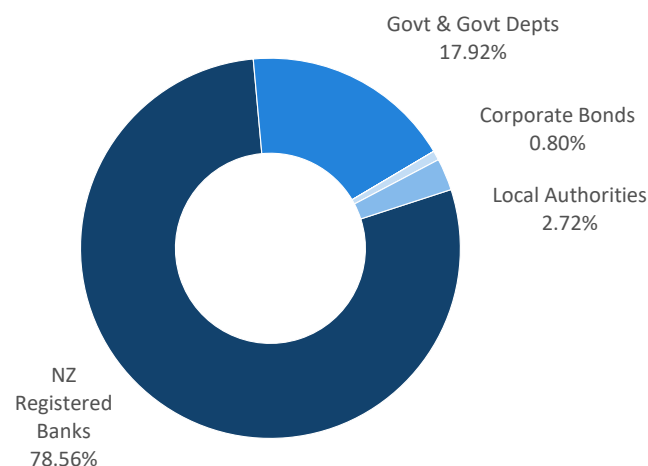
## Overview

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	16.38%	AAA	-	Fund 89 days vs Benchmark 45 days
NZ Tax Trading	11.52%	AA	62.82	
Bank of New Zealand	8.95%	A	37.18	<b>Yield</b>
Kiwibank	8.08%	BBB	-	Fund (gross) 1.42% vs Benchmark 0.26%
Rabobank Nederland/NZ	6.98%			

## Market Commentary

The rates market continues to be driven by supply and demand factors with the impact of the COVID crisis and the Reserve Bank’s actions as key themes. On the credit demand side we have loss of income and reduced job security depressing demand for credit in the housing sector. We have heard anecdotal comments that credit growth is weak in the banking system and new lending is very subdued. Counterbalancing this credit demand drag we have seen new lows in mortgage rates commonplace for lower LVR borrowers and easing in restrictions on lending to high LVR borrowers by the Reserve Bank. Out of these two factors the former is currently the more dominant.

On the supply side, banks continue to be very well funded. This is seen in a number of areas:

- Settlement accounts with the RBNZ remain elevated at \$26 billion at month end versus their more normal long run level of \$7 to \$8 billion.
- The bank bill curve is flat around the OCR level for all terms out to 1-year.
- We have seen banks that would normally issue at a spread to the bank bill curve on occasion through the month show no spread or turn down institutional deposits whilst some other banks have shown sub-bank bill rates.
- Margins in the commercial paper market have come in and are now below pre-COVID levels.

With banks having sufficient funding whilst at the same time seeing reduced demand for credit, we expected bank primary issuance of bonds will be reduced and delayed. This combined with maturities of high grade bonds over the coming months, the Reserve Bank’s large scale asset purchases (LSAP) and continued inflows from KiwiSaver, will see high quality bonds and paper remain in high demand in a supply constrained environment. This will support continued low bank bill rates with senior bank bonds increasingly scarce. 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 in May returning 0.26% benefiting from a continued tightening in credit margins and it’s longer than benchmark duration position. This a strong outperformance against the 90 day bank bill index which returned 0.02%. With the markets current supply demand dynamics and the Reserve Banks LSAP in action we expect bank bill rates to remain low and credit margins tight in the near term. As such returns will moderate as maturities are reinvested at current prevailing market interest rates 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:	0.32%, refer PDS for more details
KiwiSaver:	0.45%, refer PDS for more details

### Hedging

All investments will be in New Zealand dollars

### Buy / Sell spread

0.00% / 0.00

### Strategy size

\$881.9m

### 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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