

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

- As expected, the Reserve Bank of New Zealand (RBNZ) left the official cash rate (OCR) and size of its Quantitative Easing (QE) program unchanged in its June meeting.
- The RBNZ retained an easing bias and reiterated it will continue to use alternative monetary policy tools to achieve its targets. They stated “we will outline the outlook for the Large Scale Asset Purchase (LSAP) programme and our readiness to deploy alternative monetary policy tools in our August Statement”.
- Supply of funding continues to be strong, banks are well funded and do not need to pay up for deposits or bills and commercial paper Margins remain tight.

Fund Highlights

- The fund returned 0.9% over the quarter and continues to benefit from positions taken prior to and during the peak of the COVID crisis.
- With a longer than benchmark duration position the fund will continue to benefit from existing positions entered into when interest rates and credit spreads were higher.
- Returns will moderate over the coming months as proceeds from maturities are reinvested at current market interest rates.

Performance

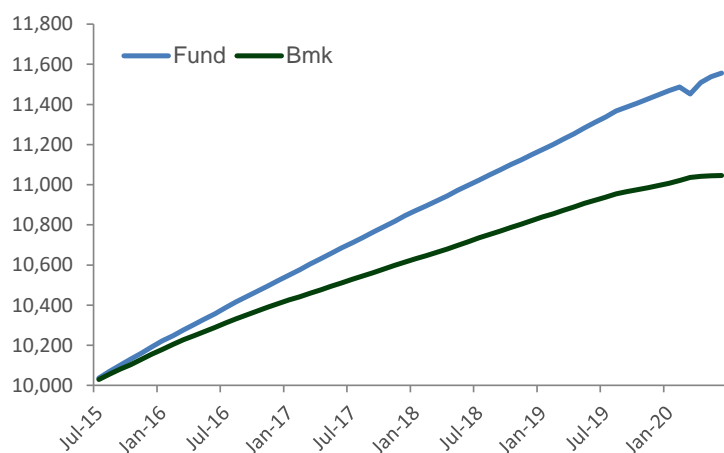
	One month	Three months	One year	Three years (p.a)	Five years (p.a)	Ten years (p.a)
Wholesale ¹	0.15%	0.91%	2.18%	2.65%	2.94%	3.54%
Benchmark ²	0.02%	0.09%	1.14%	1.67%	2.01%	2.51%
Retail ³	0.13%	0.82%	1.82%	2.28%	2.56%	
KiwiSaver ³	0.12%	0.80%	1.83%			

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.



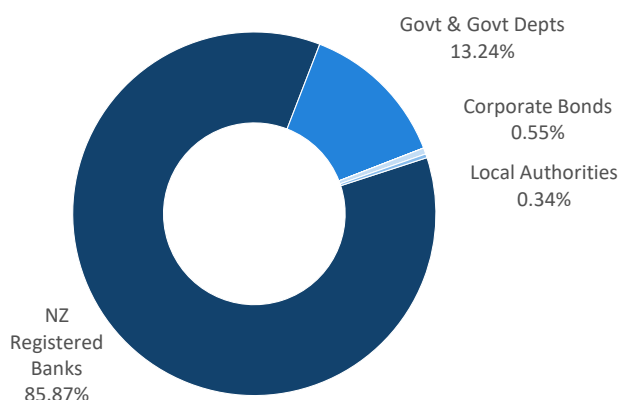
Overview

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	14.75%	AAA	-	Fund 135 days vs Benchmark 45 days
ANZ Bank New Zealand	13.24%	AA	60.45	
ASB Bank	12.42%	A	39.55	Yield
NZ Tax Trading	11.49%	BBB	-	Fund (gross) 1.35% vs Benchmark 0.28%
Kiwibank	8.90%			

Market Commentary

As expected the RBNZ left the OCR and size of its QE program unchanged in its June meeting. The meeting’s statement and minutes highlighted some near term positives including an earlier move to a level 1 lock down state and higher than expected fiscal support. However, it was noted that these positives could be short lived and that “significant economic challenges remain” with “risks skewed to the downside”. The Reserve Bank stated that the economic disruption caused by the Covid-19 pandemic “is persisting, leading to lower economic activity, employment, and inflation abroad and in New Zealand”.

Rates remained low in June with supply of funding continuing to be strong and demand for credit weak, despite some pent up demand as the country moved out of lockdown. The bank bill curve steepened with 90-day bank bills moving up from near official cash rate levels to 0.30% by month end. This movement in the curve, although helpful for reinvestment rates, was outweighed by the supply of funding in the market. Banks continue to be very well funded and are not competing for deposits and we continue to see some banks turn down deposits as they are fully funded for the level of demand for credit they are currently seeing. This strong supply is also seen in the commercial paper market with tenders generally very well bid and credit spreads below pre-COVID levels.

Looking forward to the coming months, we expect to see similar market conditions to those in the month June. Uncertainty will remain high, many countries likely to keep borders closed, wage subsidy schemes will eventually be pared back with an associated increase in job losses and a general election looms. We expect continued strong fiscal support through this however all these features increase uncertainty which in general will produce a drag on demand of credit. These features combined with the level of supply of funds and the RBNZs accommodative monetary policy stance will make it likely interest rates remain at record lows in 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 returned 0.91% for the quarter and performed well in June returning 0.15% a strong outperformance over the 90-day bank bill index which returned 0.02% for the month. The fund benefited from positions established during the higher interest rate environment seen prior to and during the peak of the COVID crisis – with credit margin contractions now likely played out this benefit primarily applies to deposit securities held on an accrual basis and higher than benchmark yield to maturity. With the market’s current supply demand dynamics, the Reserve Bank’s Large Scale Asset Purchase (LSAP) in action, and continued high uncertainty surrounding NZ’s economic performance, we expect interest rates to remain low and credit margins tight in the near term. Returns will continue to moderate as maturities are reinvested at the 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

\$757.1m

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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