

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 widely expected, the Reserve Bank of New Zealand (RBNZ) left the official cash rate (OCR) unchanged at 0.25%. Their statement was very dovish indicating should more stimulus be needed their preferred toolkit and next move would be negative rates combined with a term lending facility for banks.
- The RBNZ increased its 'Large scale asset purchase' (LSAP) program from \$60 billion to \$100 billion and extended the programs timeframe from May 2021 to June 2022.
- Short term interest rates fell on the back of the RBNZ statements. Notably the RBNZ previously said it would not cut the OCR before its March 2021 meeting with this now seven months out short term rates are starting to reflect the risk a negative OCR.

Fund Highlights

- The fund holds a portfolio of high quality credits which are expected to perform well in the aftermath of the COVID crisis.
- With a longer than benchmark duration position the funds yield to maturity is enhanced over its benchmark benefiting from slope in both the bank bill curve and credit curve.
- Returns are likely to moderate over the coming months as proceeds from maturities are reinvested at current prevailing market interest rates.

Performance

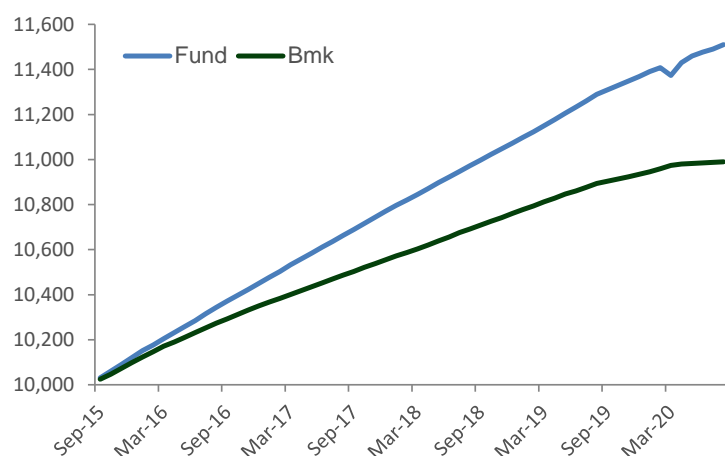
	One month	Three months	One year	Three years (p.a)	Five years (p.a)	Ten years (p.a)
Wholesale ¹	0.17%	0.44%	1.95%	2.58%	2.85%	3.51%
Benchmark ²	0.02%	0.07%	0.89%	1.57%	1.91%	2.46%
Retail ³	0.14%	0.37%	1.60%	2.21%	2.49%	
KiwiSaver ³	0.12%	0.33%	1.52%			

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.



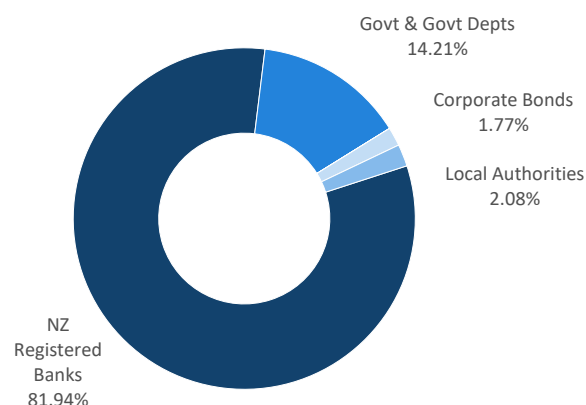
Overview

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
ANZ Bank New Zealand	20.34%	AAA	-	Fund 108 days vs Benchmark 45 days
Westpac New Zealand	11.13%	AA	60.41	
NZ Tax Trading	10.93%	A	39.59	Yield
ASB Bank	10.87%	BBB	-	Fund (gross) 1.28% vs Benchmark 0.27%
Rabobank	10.14%			

Market Commentary

As widely expected in its August Monetary Policy Statement (MPS) the RBNZ left the official cash rate (OCR) unchanged at 0.25%. This decision is consistent with the RBNZ’s previous guidance that the cash rate would remain unchanged until at least March 2021. As part of its August MPS the RBNZ increased the limit and timeframe of its large scale asset purchase program (LSAP). The limit was increased from \$60 billion to \$100 billion whilst the timeframe extended from May 2021 to June 2022. The RBNZ also revised its guidance around the proportion of government bonds it could buy without impairing market functions from 50% to 60%. This increase and extension was reasonably widely expected with debate generally centring around specifics of size, timeframe and when it would be required rather than if it would be increased.

The August MPS also indicated that should further stimulus be needed the banks preferred policy tool would be a negative OCR combined with a term lending facility for banks. The inclusion of a term lending facility signals the RBNZ is serious about negative rates. Experience from international markets shows negative interest rates are harmful to bank profits and could result in reduced risk taking, lending less and an overall reduction in system stability and resilience. A term lending facility can partially offset this impact on profitability by providing a cheap source of funds for the banking system which should help pass-through of any reduction in the OCR. With the RBNZ’s statement strongly hinting negative interest rates are a real possibility and the banking system remaining awash with cash interest rates continued their movement downwards over August. In the wholesale market these two features combined to see further reductions in interest rates and credit spreads across the month. It is also notable we have begun to see the possibility of negative interest rates get priced into interest rates in terms extending past March 2021. In this environment we expect rates and credit spreads to remain low with a downward bias.

Fund Commentary

The fund performed well in August returning 0.17%; a strong outperformance against its benchmark which returned 0.02%. The fund holds a longer than benchmark duration position providing a yield enhancement over the 90 day bank bill index with benefits accruing from both slope in the bank bill and credit curves. The bank bill and credit curves moved lower in August and are expected to remain low with a downwards bias as the market is now pricing in the risk that the RBNZ moves to a negative OCR post March 2021. In this environment we expect the funds long duration position to perform well.

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:	0.32%, refer PDS for more details
KiwiSaver fund:	Does not distribute	KiwiSaver:	0.45%, refer PDS for more details
Hedging		Buy / Sell spread	Strategy size
All investments will be in New Zealand dollars		0.00% / 0.00	\$885.56m
			Strategy Launch
			October 2007

Compliance

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

Contact Us

www.nikkoam.co.nz | nzenquiries@nikkoam.com

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