

# 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

- In its September OCR review the RBNZ left rates unchanged at 0.25%, maintained the LSAP program at \$100 billion and continued to highlight downside risks.
- The RBNZ previously suggested it would roll out alternative monetary policy concurrently as a joint package - it has now stated various alternative policy instruments can be deployed independently with a 'Funding for Lending Program' (FLP) likely being the first.
- The RBNZ previously said it would not cut the OCR before March 2021 and continues to keep this promise however it now appears they could ease monetary conditions earlier through deploying a FLP program.

## Fund Highlights

- The fund continues to hold a portfolio of high quality credit that are expected to perform well in the aftermath of the COVID crisis.
- With a longer than benchmark duration position the fund's 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

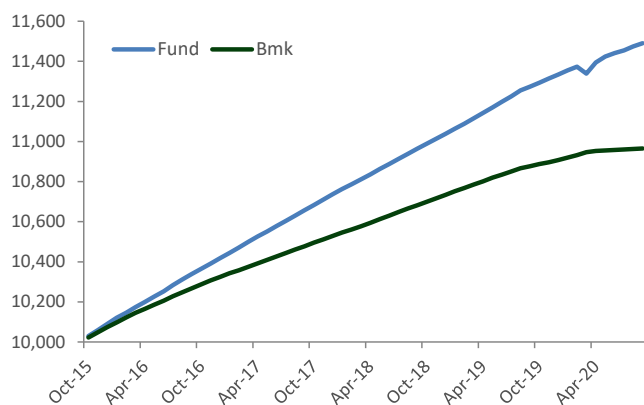
	One month	Three months	One year	Three years (p.a)	Five years (p.a)	Ten years (p.a)
Wholesale <sup>1</sup>	0.13%	0.42%	1.92%	2.54%	2.82%	3.48%
Benchmark <sup>2</sup>	0.02%	0.07%	0.82%	1.53%	1.86%	2.44%
Retail <sup>3</sup>	0.11%	0.35%	1.57%	2.17%	2.45%	
KiwiSaver <sup>3</sup>	0.10%	0.31%	1.45%			

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.

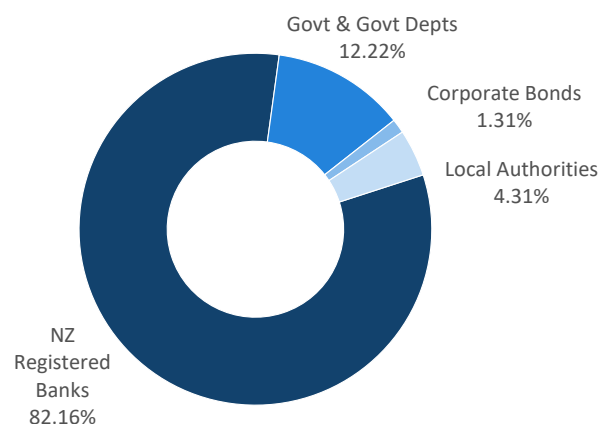
## Overview

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
ANZ Bank New Zealand	20.11	AAA	-	Fund 139 days vs Benchmark 45 days
Rabobank	12.87	AA	60.26	
Westpac New Zealand	12.24	A	39.74	Yield
ASB Bank	10.06	BBB	-	Fund (gross) 1.05% vs Benchmark 0.29%
NZ Tax Trading	9.13			

### Market Commentary

The RBNZ’s September OCR review left rates unchanged at 0.25%. Its statement remains very down beat - highlighting weak domestic and global outlooks and a continued need for supportive monetary policy.

Overall the RBNZ’s statement was very consistent with August’s, however there was a notable departure around when alternative monetary policy tools could be used. The RBNZ previously suggested it would roll out its alternative monetary policy toolkit concurrently as a joint package, it has now stated various alternative policy instruments can be deployed independently with a ‘Funding for Lending Program’ (FLP) likely being the first. The statement said that the FLP would be ready for deployment by the end of the calendar year - rather than alongside a negative OCR in 2021.

The potential of an earlier deployment of the FLP program is likely to see further downward pressure on interest rates. If announced a FLP would give banks access to very cheap funding and allow them to reduce borrowing costs for businesses and consumers. This source of cheap funding is also likely to see banks reduce rates offered on deposits and other funding sources to both institutions and retail investors.

With the RBNZ continuing to support the use of negative interest rates in 2021 and now the potential use of a FLP program possibly as soon as November we expect downward pressure on rates to increase. In the wholesale market these features will see further reductions in interest rates offered by banks with this flowing on to the wider commercial paper and short bond markets as investors chase alternatives in response to these reduced bank interest rates. In this environment we expect rates and credit spreads to remain low with a downward bias and long duration positions to perform well.

### Fund Commentary

The fund performed well over the quarter with a strong outperformance against its benchmark index which returned 0.07%. 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 RBNZ continues to show support for a negative OCR potentially being used post March 2021. It previously guided for a negative OCR to be used concurrently with other alternative monetary policy such as a FLP. In this environment we expect continued downward pressure on interest rates and the fund’s long duration position to perform well.

### 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

\$879.4m

#### 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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