

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

- Interest rates were stable over the month with little reaction to the NZ election results.
- Rhetoric from the RBNZ remained consistent and continues to point to a strong easing bias.
- With no RBNZ meetings in October attention turns to November's MPS meeting where the market expects to see a funding for lending program announced.

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 fund's yield to maturity is enhanced.
- Returns are likely to moderate over the coming months as proceeds from maturities are reinvested at prevailing market interest rates.

Performance

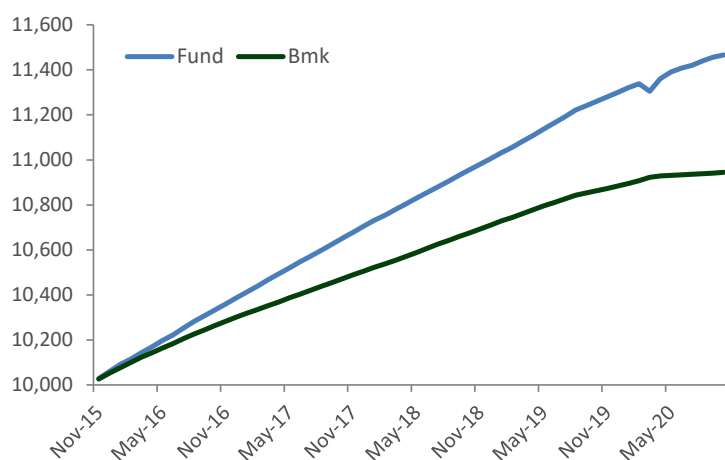
	One month	Three months	One year	Three years (p.a)	Five years (p.a)	Ten years (p.a)
Wholesale ¹	0.09%	0.40%	1.83%	2.49%	2.77%	3.45%
Benchmark ²	0.03%	0.07%	0.75%	1.48%	1.82%	2.41%
Retail ³	0.07%	0.32%	1.50%	2.12%	2.41%	
KiwiSaver ³	0.05%	0.27%	1.37%			

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.

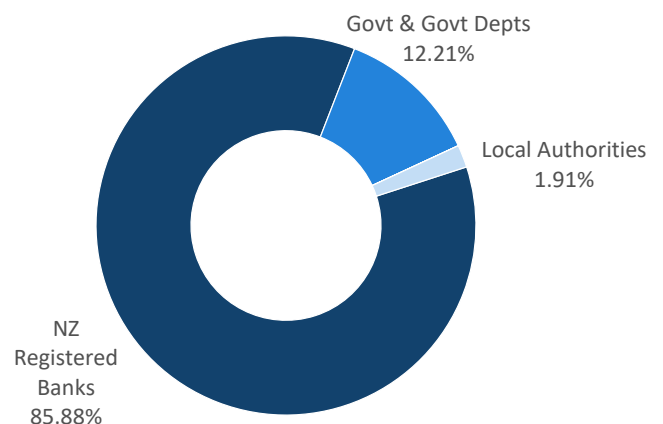
Overview

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	21.41	AAA	-	Fund 138 days vs Benchmark 45 days
Westpac NZ Ltd	14.10	AA	66.23	
Rabobank	13.11	A	33.77	Yield
ASB Bank Ltd	10.24			Fund (gross) 1.03% vs Benchmark 0.27%
NZ Tax Trading	8.69			

Market Commentary

The month of October saw little movement in short term interest rates. With no RBNZ meetings in October the biggest potential market mover was the NZ election result. This turned out to be a non-event with the market widely expecting some form of a Labour led government. The outright majority for Labour provided further comfort around policy consistency with any potential policy influence from minor parties negated.

Attention was turned to RBNZ’s expected next moves. Rhetoric remains consistent with a strong easing bias. Their willingness to use alternative tools such as a funding for lending program and negative rates continue to be highlighted, as do concerns around global risks. The market is expecting the Funding for Lending Program (FLP) to be announced in the November Monetary Policy Statement.

Recent economic data releases have seen slowing inflation with prices up 1.5% for the year to September, increasing unemployment at 5.3% and signs of asset price inflation in the property market. The first two of these support the RBNZ’s position that more stimulus is needed. Asset prices are somewhat a concern as they can lead to financial stability risks if not kept in check. The RBNZ has tools to directly manage these prices in LVR restrictions and other macro prudential tools. We expect these to be deployed perhaps sooner than expected while an easing bias is maintained.

With the RBNZ’s continuing to support use of negative interest rates in 2021 and the use of a FLP program possibly as soon as November we expect downward pressure on rates to increase. In the wholesale market this 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 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 in October with a strong outperformance against the 90-day Bank Bill Index. 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 support for a negative OCR to be used concurrently with other alternative policy such as a FLP will put downward pressure on interest rates and we expect the fund’s 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	Strategy Launch
All investments will be in New Zealand dollars		0.00% / 0.00	\$864.4m	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

This document is issued by Nikko Asset Management New Zealand Limited (Company No. 606057, FSP No. FSP22562), the investment manager of the Nikko AM NZ Investment Scheme, the Nikko AM NZ Wholesale Investment Scheme and the Nikko AM KiwiSaver Scheme. This information is for the use of researchers, financial advisers and wholesale clients. This material has been prepared without taking into account a potential investor’s objectives, financial situation or needs and is not intended to constitute personal financial advice, and must not be relied on as such. Recipients of this document, who are not wholesale investors (in accordance with Schedule 1, Clause 3 Financial Markets Conduct Act 2013), or their duly appointed agent, should consult an Authorised Financial Adviser and the relevant Product Disclosure Statement. Past performance is not a guarantee of future performance. While we believe the information contained in this presentation is correct at the date of presentation, no warranty of accuracy or reliability is given and no responsibility is accepted for errors or omissions including where provided by a third party. For full details on the retail and KiwiSaver funds, please refer to the relevant Product Disclosure Statement on nikkoam.co.nz.