

# 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

- The rates market took a risk-on movement, increasing rates, on the back of positive announcements around the development of an effective COVID-19 vaccine.
- The RBNZ announced details of its widely heralded funding for lending program which will allow banks to fund up to 6% of their balance sheet directly from the RBNZ at rates linked to the OCR.
- A flurry of media coverage around strong house price and residential lending growth culminated in the Finance Minister Grant Robertson writing to the RBNZ seeking input on how the RBNZ could contribute to a stable housing market.

## Fund Highlights

- The fund holds a portfolio of high quality credit which is 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

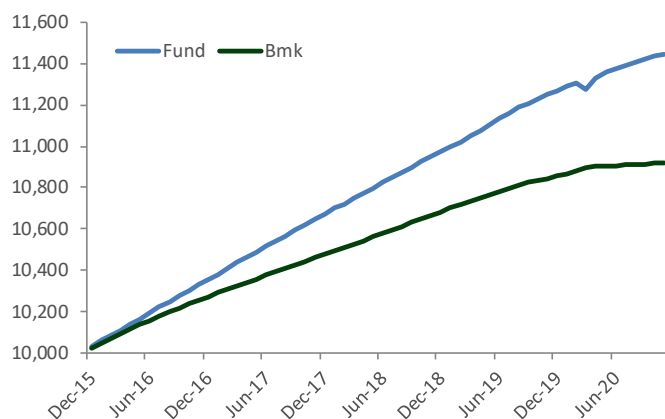
	One month	Three months	One year	Three years (p.a)	Five years (p.a)	Ten years (p.a)
Wholesale <sup>1</sup>	0.07%	0.30%	1.73%	2.43%	2.73%	3.42%
Benchmark <sup>2</sup>	0.02%	0.07%	0.68%	1.43%	1.77%	2.39%
Retail <sup>3</sup>	0.05%	0.23%	1.41%	2.06%	2.37%	
KiwiSaver <sup>3</sup>	0.04%	0.19%	1.28%			

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.

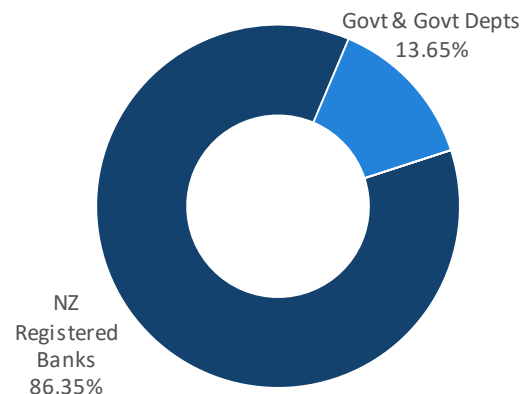
## Overview

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	21.14	AAA	-	Fund 133 days vs Benchmark 45 days
Rabobank	13.50	AA	64.01	
Westpac	13.28	A	35.99	Yield
ASB Bank Ltd	9.71			Fund (gross) 1.04% vs Benchmark 0.26%
NZ Tax Trading	8.55			

## Market Commentary

The November rates market was one of two parts, rates for terms under one year ended relatively unchanged anchored by RBNZ actions, whilst rates for longer terms moved up primarily driven by positive news around progress developing vaccines for COVID-19. With this combination of yield curve movements, portfolios with exposure predominantly to terms of less than one year fared reasonably well whilst longer portfolios experienced negative absolute returns. Despite not having a meaningful impact on short dated securities it is worth touching on news around the development of a COVID-19 vaccine. During the month both Pfizer and Moderna published data showing efficacy of their vaccines at 90% and 94.5% respectively. These are outstanding efficacy levels; we note by comparison the CDC estimates efficacy of the seasonal influenza vaccine at only 40% to 60%. This progress is very pleasing as it provides a pathway for the eventual return of normal activity in economies and societies. However, it should not be viewed as a silver bullet that solves all economic malaise today, a return to some sort of new normality is more likely a year away rather than months away. On the domestic front at its November Monetary Policy Statement, the RBNZ announced details of its widely heralded funding for lending program which will allow banks to fund up to 6% of their balance sheet directly from the RBNZ at rates linked to the OCR. We expect this program to place continued downward pressure on interest rates as banks seek to fund from this cheap source of capital rather than paying up for retail or wholesale funding. To see upward pressure on short rates we would need to see strong credit demand growth, the FLP, estimated at \$20 to \$30 billion in size, fully utilised and/or a drop in deposits held in the banking system. The first two would take some time to occur whilst looking at deposits we note that so far balances have been building in the banking system rather than declining. Looking at credit growth in more detail, we note there have been some signs of credit growth occurring with cheaper mortgage rates seeing a significant uptick in house prices and associated demand for mortgage funding. Data from the RBNZ shows lending for housing up \$2.9 billion in the month of October this the highest level of monthly credit growth since the RBNZ began collecting this data in 1990. Anecdotes point to this growth continuing into November with banks struggling to keep up with demand for new mortgage approvals. This growth in credit demand, however, does not look to be sustainable. Strong growth in house prices have attracted a flurry of media coverage with blame justly or otherwise directed towards the RBNZ. This ultimately culminated in the Finance minister Grant Robertson writing to the RBNZ seeking input on how the RBNZ could contribute to a stable housing market. In his letter the Finance Minister stressed he was not seeking to change the RBNZ’s policy targets or challenge its independence but rather seek input. At face value this does not impact the RBNZ’s ability to further cut rates including into negative territory but could cause some level of pause along with the use of macro prudential policies such as loan to value ratios and possibly the use of debt to income ratios to slow this growth. Considering these various events, we expect short interest rates will continued to be anchored by the RBNZ’s statements and policy positions. We are expecting short-term interest rates to remain around current levels with risk to the downside. The hurdle for interest rate increases remains high and policy tightening seems unlikely to be on the RBNZ’s agenda in the coming year.

## Fund Commentary

The fund performed well in November returning 0.07%, a strong outperformance against 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 primarily from slope in the credit curve. We expect the RBNZ’s FLP program to place continued downward pressure on interest rates as banks seek to fund from this cheap source of capital rather than paying up for retail or wholesale funding. In this environment we expect continued downward pressure on interest rates and the fund’s long duration position to perform well.

## Key Fund Facts

<b>Distributions</b>	<b>Estimated annual fund charges (incl. GST)</b>		
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		
<b>Hedging</b>	<b>Buy / Sell spread</b>	<b>Strategy size</b>	<b>Strategy Launch</b>
All investments will be in New Zealand dollars	0.00% / 0.00	\$839.2m	October 2007

## Compliance

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

## Contact Us

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