

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 first drawdowns were made from the Reserve Bank's Funding for Lending program with \$1.04 billion drawn over the month.
- The 90-day Bank bill rates edged up a couple of points from 0.25% to 0.27%, however credit spreads remain at record lows.
- 3Q20 GDP lifted a whopping 14% - bouncing back from the previous quarter's lockdown induced declines, and an outperformance versus consensus expectations of 13%. The NZ Economy looks to be more resilient and has recovered from the lockdown faster than expected. It is yet to be determined if the positive momentum can be sustained.

Fund Highlights

- The fund holds a portfolio of high quality credit 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 over its benchmark, benefiting from slope in the credit curve.
- Returns are likely to moderate over the coming months as proceeds from maturities are reinvested at current prevailing market interest rates.

Performance

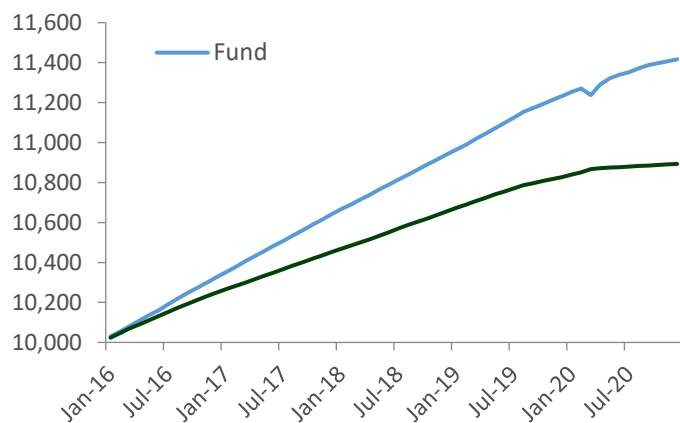
	One month	Three months	One year	Three years (p.a)	Five years (p.a)	Ten years (p.a)
Wholesale ¹	0.09%	0.25%	1.64%	2.37%	2.68%	3.39%
Benchmark ²	0.02%	0.07%	0.60%	1.39%	1.73%	2.36%
Retail ³	0.07%	0.19%	1.33%	2.01%	2.33%	
KiwiSaver ³	0.06%	0.15%	1.19%			

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.



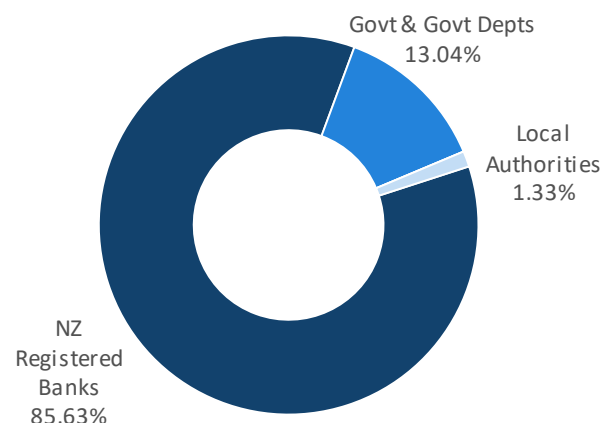
Overview

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	18.05	AAA	-	Fund 113 days vs Benchmark 45 days
Rabobank	13.66	AA	58.45	
Westpac	12.24	A	41.55	Yield
ASB Bank Ltd	9.83			Fund (gross) 1.00% vs Benchmark 0.26%
Kiwibank	8.12			

Market Commentary

The Reserve Bank’s Funding for Lending Program (FLP) became available for drawdowns on December 7 with \$1.04 billion drawn over the month. To put this drawdown rate and size into context, drawdowns can be made any time in the next two years as required and the total size of the FLP is estimated to be between \$20b and \$30b. The FLP will be amongst the cheapest funding sources for banks with the only cheaper funding source coming from call accounts generally paying a rate of 0%. These funding dynamics should see interest rates for all other funding sources come under pressure until the FLP is near fully drawn.

Despite the presence of the FLP, 90-day bank bill rates edged up a couple of points from flat at the OCR rate of 0.25% to 0.27% at month end. With interest rates so low this movement up in bank bill reference rates will provide a negative drag on returns of securities priced over bank bill such as commercial paper and registered deposits, however we can see little reason for these increased rates to persist. There is logically little reason for bank balance sheets to pay up for bank bill funding when they can draw on the FLP at the OCR rate of 0.25%. Looking to domestic data released in December there were several notable positive releases. The 3Q20 GDP lifted a whopping 14% bouncing back from the previous quarter’s lockdown induced decline and outperforming consensus expectations of 13%. The NZ economy looks to have been more resilient than expected and has recovered from the impact of the lockdown earlier in 2020 - with quarterly GDP now above pre-COVID levels. Amongst other data released in December we note October building consents up +8% MoM, REINZ November house sales grew +29.6% YoY and both business and consumer confidence increased. The question remains if this positive momentum can be sustained. Considering these various events, we expect short interest rates will continued to be anchored around their current levels with risk to the downside. The prospect of the RBNZ cutting the OCR remains, however is somewhat reduced considering improving domestic economic data, sizeable monetary and fiscal support already in place and the roll out of a COVID vaccine globally over 2021. In this environment we expect continued pressure on short interest rates and the fund’s long duration position to perform well.

Fund Commentary

The fund performed well in December returning 0.09% a strong outperformance against the 90-day bank bill index which returned 0.02%. The fund holds a longer than benchmark duration position which provides a yield enhancement over the 90-day bank bill index with benefits accruing primarily from slope in the credit curve. December data shows the NZ economy has been more resilient than expected and has recovered from the impact of the COVID lockdown earlier in 2020, with quarterly GDP now above pre-COVID levels. This strong performance if maintained could lead to rising interest rates for longer tenors, however the RBNZ is operating very accommodative monetary policy: the OCR is at a record low of 0.25%, a quantitative easing program is in place and now the Funding for Lending Program is available for drawdown. These initiatives are likely to see short rates anchored around current levels. In this environment we expect continued pressure on short interest rates and 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	\$829.1m	October 2007

Compliance

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

Contact Us

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