

# 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

- Consumer prices surprised on the upside, coming in at 3.3% for the year.
- On the back of this strong inflation print and low unemployment the market rapidly moved to price in a series of OCR increases.
- 90-day bank bill rates moved up 13 basis points ending the month at 0.48% yield.

## Fund Highlights

- The fund holds a longer than benchmark duration position to benefit from the slope in the credit and bank bill curves.
- Duration is actively managed and may reduce as we approach the time where the RBNZ has indicated OCR hikes may start.
- The fund holds a range of securities including floating rate notes which provide some protection against a potentially rising cash rate.

## Performance

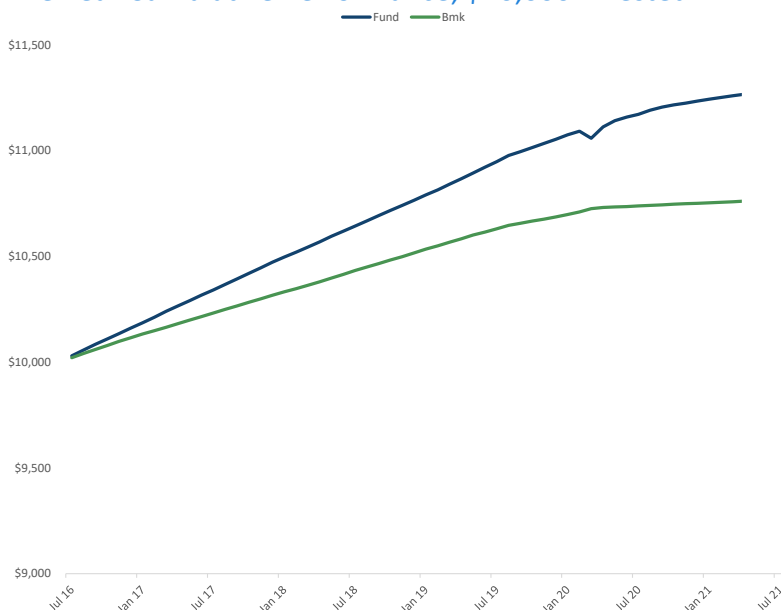
	One month	Three months	One year	Three years (p.a)	Five years (p.a)	Ten years (p.a)
Wholesale <sup>1</sup>	0.05%	0.20%	1.06%	1.98%	2.40%	3.19%
Benchmark <sup>2</sup>	0.02%	0.08%	0.29%	1.06%	1.45%	0.02%
Retail <sup>3</sup>	0.02%	0.12%	0.75%	1.64%	2.05%	
KiwiSaver <sup>3</sup>	0.01%	0.09%	0.60%	1.71%		

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.

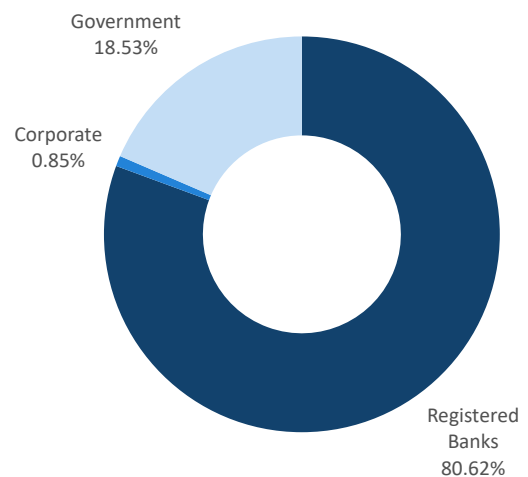
## Overview

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
Westpac New Zealand Ltd	16.33	AAA	18.53	Fund 96 days vs Benchmark 45 days
Kiwibank Ltd	13.34	AA	37.68	
Cooperatieve Rabo U.A.	12.71	A	43.79	
ASB Bank Ltd	9.93			<b>Yield to Maturity</b>
Inland Revenue NZ	9.71			Fund (gross) 0.88% vs Benchmark 0.38%

## Market Commentary

The story of July was one of increasing inflation pressures with a stronger than expected CPI print - a catalyst for the market to bring forward its expectations of when OCR increases may occur. Consumer prices for 2021 were released on 16 July coming in at a 3.3% lift for the year, its highest print since 2011. The composition of these price rises were reasonably broad based across the tradable (1.7% qoq, 3.4% yoy) and non-tradable segments (1.2% qoq, 3.3% yoy) – the increase in tradeable inflation showing the impact of supply chain constraints.

Turning to the detail of these numbers, drivers were as expected with the “housing and household utilities” and “transport” groups contributing the bulk of the rise. Housing and household utilities accounted for 1.1% or roughly one third of total headline inflation. This seems rather intuitive with a robust housing market, an uptick in building activity, a tight labour market and supply chain constraints pushing up housing costs which rose a whopping +4.6% qoq (7.4% yoy) their largest quarterly rise since 1987. Other components of the housing group rose more modestly with both “rents” and “property rates and related services” both coming in at +2.9% yoy. However we see continued price pressure for both these groups. We expect rates will continue to rise at above inflation rates and note the impact of the government’s recent housing policy changes will also arguably see continued inflation pressure in rents.

The transport group also accounted for 1.1% of the headline 3.3% CPI growth. This increase partly reflected the continued increase in oil prices flowing through to prices at the petrol pump. However, ongoing disruptions to the auto industry combined with strong domestic demand for used cars also strongly contributed. We note prices of second-hand cars were up an impressive 13.9% yoy.

With inflation reasonably broad based and above the Reserve Bank’s target range of 1-3% and, with unemployment at low level arguments for the RBNZ to retain its current level of stimulus, are rapidly weakening. The RBNZ last cut its cash rate in March of 2020 as an emergency response to the developing COVID pandemic to shore-up growth. We are now past the peak of this crisis, the economy is performing well, the labour market is tight and prices are rising. This level of stimulatory support is no longer needed. This does not mean an OCR increase is a certainty, for the RBNZ’s August meeting - the Reserve Bank could justifiably decide to bide its time for now by continuing to call out inflation as transitory and highlighting the risk the delta variant poses to the economy.

## Fund Commentary

The fund performed well in July returning 0.05%, outperforming the 90-day bank bill index which returned 0.02%. On the back of a strong CPI print bank bill rates moved up across the curve with 90-bank bill rates up +13bps to 0.48%, 6-month bank bills up +22bps to 0.60% and 1-year swap up +32bps to 0.82%. The move up in bank bill rates produced a negative mark-to-market drag on this month’s returns. However, on the positive side these increasing bank bill rates improve reinvestment rates which will flow through to improved future returns for the fund in relatively short order. We expect to continue to reduce duration at the margin whilst taking advantage of these improved reinvestment rates.

## 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:	0.30%, 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	\$752.7m	October 2007
<b>Restrictions</b>				
Adult entertainment, gambling, fossil fuels, alcohol stocks, tobacco stocks. For more information please refer to the Statement of Investment Policy and Objectives (SIPO) which can be found on our website <a href="https://www.nikkoam.co.nz/invest/retail">https://www.nikkoam.co.nz/invest/retail</a> .				
<b>Exclusions</b>				
Securities that conduct activities listed on the Schedule to Cluster Munitions Prohibition Act 2009. Tobacco manufacturers.				

## Compliance

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

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