

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

- 90-day bank bill rates increased from 0.85% to 0.96%, this increase reflects the investment horizon of the bills falling within the next likely Reserve Bank rate increase.
- Market pricing suggest consensus views remain for a 0.25% OCR increase at the Reserve Bank's February 2022 meeting, with a 0.25% rise slightly more than fully priced in.
- Third quarter GDP came in better than expected at -3.7% vs -4.1%. The decrease reflecting lockdown impacts.

Fund Highlights

- The fund outperformed the benchmark over the quarter.
- The fund holds a longer than benchmark duration position to benefit from slope in the credit and bank bill curves.
- Duration is actively managed with fund positions reflecting the likely path of the OCR over the coming months along with what is priced into security yields.

Performance

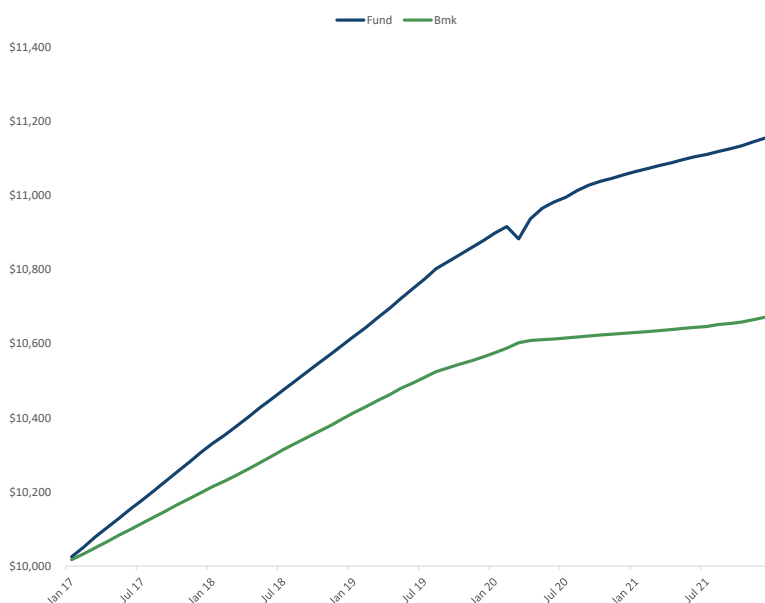
	One month	Three months	One year	Three years (p.a)	Five years (p.a)	Ten years (p.a)
Wholesale ¹	0.09%	0.26%	0.89%	1.73%	2.21%	3.07%
Benchmark ²	0.06%	0.16%	0.41%	0.88%	1.31%	2.12%
Retail ³	0.07%	0.20%	0.60%	1.40%	1.87%	
KiwiSaver ³	0.06%	0.16%	0.46%	1.39%		

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.

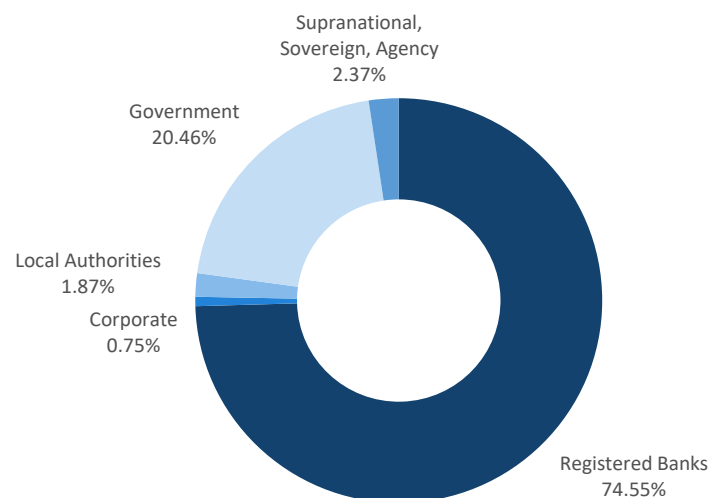
Overview

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
Westpac New Zealand Ltd	16.92	AAA	22.8	Fund 108 days vs Benchmark 45 days
Tax Management NZ Ltd (Govt IRD)	10.53	AA	47.8	
ASB Bank Ltd	10.17	A	29.4	Yield to Maturity Fund (gross) 1.35% vs Benchmark 0.85%
NZ Tax Trading Co (Govt IRD)	9.34			
ANZ Bank of New Zealand Ltd	9.23			

Market Commentary

Third quarter GDP came in at -3.7% versus expectations of -4.1% - the fall reflecting impact of the recent Auckland lockdown. Pre pandemic this would have been considered a monster of a GDP fall, but lessons from past lockdowns suggest that economic activity will pick up where it left off as lockdown restrictions are lifted. The Reserve Bank will likely consider GDP as interesting in that it is better than their November MPS forecast of -7.0%, however given it's impacted by a lockdown and that prior lockdowns have seen consumption bouncing back once restrictions are lifted it provides little new insight into appropriate monetary policy settings. As such, it is unsurprising that 90-day bank bills continued their upward march ending up 0.11% to end the month at 0.96%. On face value this appears a reasonably sizeable movement, however considering the Reserve Bank's next OCR review meeting is within an investment horizon of these bills (i.e., meeting occurs before a bank bill matures), and the market expects a 0.25% OCR increase this increase primarily reflects the accrual of these expectations. Regarding market pricing, it is interesting to note at the end of December, overnight swap contacts have 0.30% of OCR increases priced in for the Reserve Bank's February meeting. Given the Reserve Bank has historically moved the cash rate in multiples of 0.25% this pricing suggests there are still market participants out there that view a 0.50% increase as a possibility. As we mentioned in our November commentary the hurdle for a 0.50% increase has arguably been lifted by the Reserve Bank's statements and actions at their November MPS. Again, we note the Reserve Bank stated in their November meeting "considered steps... were the most appropriate" and that there has been no economic data released since this meeting that suggest more aggressive actions need to be taken.

Fund Commentary

The fund performed well in quarter four returning 0.26% outperforming the 90-day bank bill index which returned 0.16%. The OCR increased from 0.25% to 0.75% over the quarter increasing in 0.25% steps at each of the October and November meetings. These rate rises were widely expected however there was a divergence in expectations around the Reserve Bank's November meeting with bets finely balanced between two camps, those expecting a 0.25% OCR rise and those that viewed a 0.50% rise as more appropriate (given the strength of inflation and employment). From a portfolio positioning perspective Nikko has consistently been in the 0.25% camp implementing a barbel strategy to exploit pricing above 0.25% increments at each meeting date. This turned out to be a solid decision as the Reserve Bank's November MPS provided clarity around their expected OCR path factoring in the impacts of COVID effectively raising the hurdle for 0.50% OCR rises to occur, damping more aggressive OCR paths priced in prior to this meeting. This reduction of OCR paths notwithstanding a 0.25% OCR increase remains more than fully priced in for the Reserve Bank's next meeting in February. The fund continues to pursue a barbel strategy to exploit this pricing as an OCR increase of more than 0.25% at the next meeting requires increased economic impetus along with less COVID driven uncertainty to eventuate. At the same time as taking these short positions around the Reserve Bank's upcoming meetings we continue to see merit in opportunistically adding longer positions reflecting a view that risks are the OCR will peak at a lower level than many assume and possibly take longer than expected to get there.

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:	0.30%, refer PDS for more details
KiwiSaver fund:	Does not distribute	KiwiSaver:	0.45%, refer PDS for more details
Hedging		Buy / Sell spread	Strategy size
All investments will be in New Zealand dollars		0.00% / 0.00	\$857.8m
Strategy Launch			
October 2007			
Restrictions			
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 https://www.nikkoam.co.nz/invest/retail .			
Exclusions			
Securities that conduct activities listed on the Schedule to Cluster Munitions Prohibition Act 2009.			

Compliance

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

Contact Us

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