

Factsheet 30 June 2022

# 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 90 day bank bill rates continued to move up with markets placing a high probability the next two Reserve Bank meetings will see consecutive 50bp OCR hikes.
- Longer rates were volatile as sentiment swung between relative optimism of a soft landing in response to a higher cash rate, and fear of a recession.
- At their peak on an intramonth basis 1-year swap rates were up an astonishing 55bps whilst overnight indexed swap (OIS) market pricing suggested the OCR would reach 4.75% in a year's time.

## Fund Highlights

- The fund is using a barbell strategy to benefit from higher future expected rates today while short positions are concentrated around upcoming Reserve Bank OCR review dates to reduce risk.
- 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.
- The fund holds a range of securities including floating rate notes which provide some protection against a rising cash rate.

## Performance

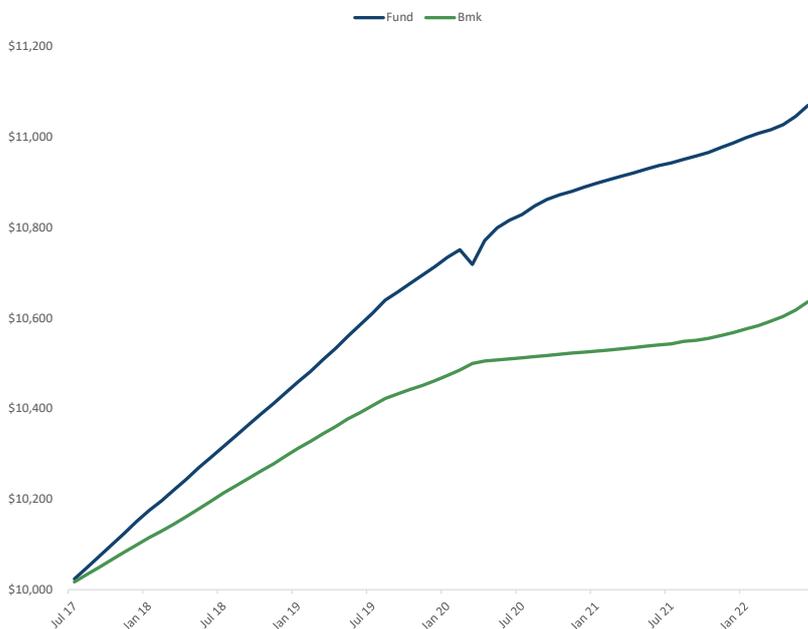
	One month	Three months	One year	Three years (p.a)	Five years (p.a)	Ten years (p.a)
Wholesale <sup>1</sup>	0.22%	0.49%	1.21%	1.50%	2.05%	2.94%
Benchmark <sup>2</sup>	0.17%	0.41%	0.90%	0.78%	1.24%	2.04%
Retail <sup>3</sup>	0.19%	0.40%	0.91%	1.19%	1.71%	-
KiwiSaver <sup>3</sup>	0.18%	0.37%	0.78%	1.10%	-	-

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.

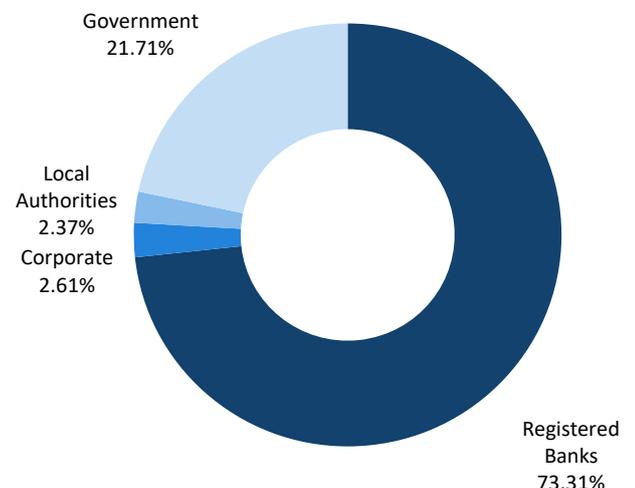
## Overview

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
Bank of New Zealand	11.94	AAA	24.8	Fund 115 days vs Benchmark 45 days
Westpac New Zealand Ltd	11.60	AA	36.7	
NZ Tax Trading Co	10.92	A	38.5	
Tax Management NZ Limited	10.37			<b>Yield to Maturity</b>
Cooperative Rebo U.A.	9.33			Fund (gross) 3.44% vs Benchmark 2.51%

### Market Commentary

June was a month of extreme moves in sentiment as markets grappled with the relative probabilities of a soft landing in response to a higher cash rate versus the potential for a recession. These moves in sentiment predominantly impacted longer term rates whilst expectations remained that in the near term the Reserve Bank (RB) would continue to hike aggressively at each OCR review opportunity in 2022. This pricing dynamic resulted in a continued rise of 90-day bank bill rates which increased by 0.395% to end at the month at 2.86%. At the same time OIS pricing levels suggest consensus expectations continue to be for two consecutive 50 basis point OCR hikes at the RB’s July and August meetings.

Contra to this continued near term expectation of OCR hikes, pricing, and sentiment around where the OCR would get to over a year along with its terminal level was very volatile. This was clearly seen in 1-year swap prices which at peak were up an astonishing 55bps intra month reaching a high of 4.14% before falling back 36bps to end the month at 3.78%, still up an impressive 20bps for the month. This rapid ascent in pricing was also seen in OIS contracts that suggested during their same intra month peak that the OCR would be as high at 4.75% in a year’s time. These moves were driven by continued aggressive central bank inflation fighting actions and rhetoric with the most pivotal of June being the Fed’s mid-month decision to increase its funds rate by 75bps - the largest singular increase since 1994. Initially markets were determined to extrapolate this move by the Fed to New Zealand’s OCR rates, beginning to price the potential for 75bps moves in the OCR at both the July and August meetings. However, this optimism around the RB’s ability to lift the OCR to these highs without causing a slowdown or recession was short lived as post the FOMC meeting, in providing testimony to the US Senate, Jerome Powell made it clear that a future recession although not their central scenario was possible, and this risk would build as funds rates increased.

We have long been advocating the more aggressive the OCR hiking path and the higher the peak of this OCR hiking cycle the greater the likelihood we see a slowdown or recession and consequent reversal in rates trajectory. Harbingers of this scenario are increasingly apparent - consumer confidence is at record lows domestically, below levels seen during major global recessions, business confidence is equally in the doldrums and the share quantum of slowing impetus from increased mortgages rates on potential discretionary consumer spending is looking increasingly large. In our view the likelihood of the RB delivering an OCR, as priced by the market, in excess of 4% in a year’s time, without causing a hard landing is increasingly challenged.

### Fund Commentary

The fund performed well in June quarter returning 0.49% outperforming the 0.41% return of the benchmark 90-day bank bill index. Short end rates continued to move up consistent with aggressive near-term OCR hikes with the fund fairly compensated for consecutive 50bps OCR hikes in July and August. Most notably towards the end of the quarter longer term rates aggressively increased. In June, 1-year swap at its intramonth peak up was up 55bps to (reaching 4.14%) and OIS contracts implied a peak OCR of 4.75% in a year’s time. At this June intra month peak pricing at the one-year point looked increasingly challenged with consumer confidence at record lows only previously seen in recessions, business confidence equally in the doldrums and the slowing impetus from increased mortgages rates on consumer spending looking increasingly large. Further, with the Fed and other global central banks continuing to hike and calling out inflation as no longer tolerable any progress they make in taming their own domestic inflation should positively help New Zealand’s tradable or imported inflation challenge. With this backdrop we took the opportunity to increase the fund’s duration position around this peak mid-June pricing, primarily targeting longer duration terms ranging between 6-months and a year.

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>
All investments will be in New Zealand dollars		0.00% / 0.00	\$954m
<b>Restrictions</b>		<b>Strategy Launch</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.			

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

**Contact Us** [www.nikkoam.co.nz](http://www.nikkoam.co.nz) | [nzenquiries@nikkoam.com](mailto: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 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 a Financial Advice Provider 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](http://nikkoam.co.nz).