

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

- Third quarter GDP surprised - coming in at a whopping 2.0%, significantly ahead of market expectations of +0.9% and the RBNZ November MPS forecast of +0.8%.
- On the back of this remarkably strong GDP markets continue to price aggressive RBNZ action for their first meeting of 2023, with pricing suggesting the possibilities of 0.50% and 0.75% increases.
- 90-day bank bills increased 0.24% for the month (0.805% for the quarter) whilst 1-year swap increased 0.28% (0.875% quarter) ending the year at 4.65% and 5.48% respectively.

Fund Highlights

- The fund performed well over the month and quarter outperforming its benchmark. The fund is increasingly looking for opportunities to add duration where appropriately compensated as the hiking cycle matures. The fund also continues to target investment maturities around the RBNZ nearest two meeting dates to allow for rapid reinvestment.

Performance

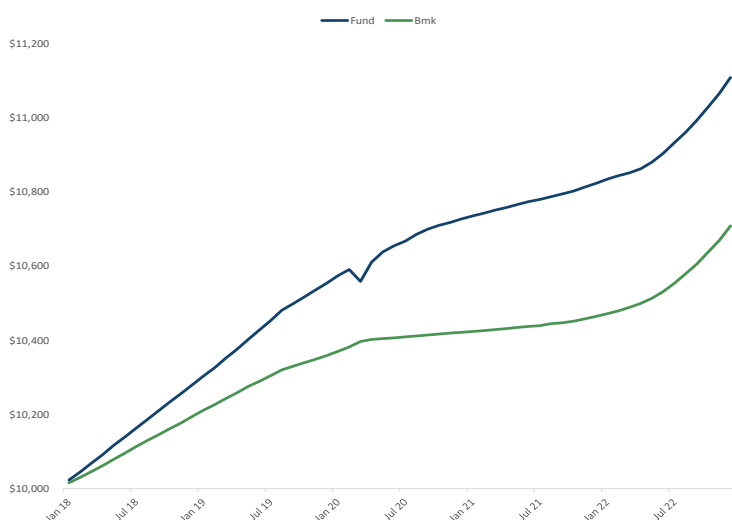
	One month	Three months	One year	Three years (p.a)	Five years (p.a)	Ten years (p.a)
Wholesale ¹	0.39%	1.05%	2.64%	1.72%	2.13%	2.92%
Benchmark ²	0.37%	0.97%	2.33%	1.11%	1.38%	2.08%
Retail ³	0.36%	0.97%	2.33%	1.42%	1.79%	
KiwiSaver ³	0.34%	0.93%	2.19%	1.28%		

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^{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.

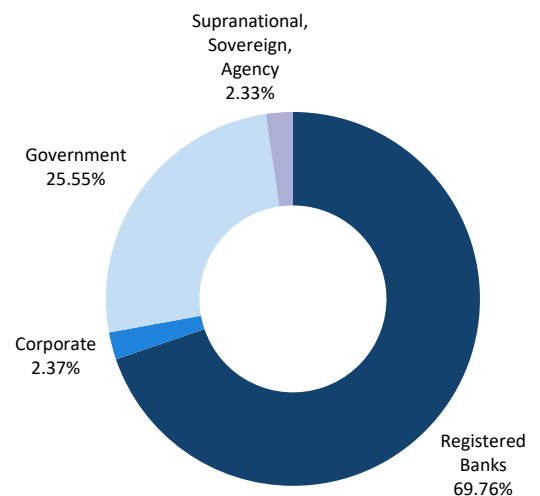
Overview

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
NZ Tax Trading Co	12.84%	AAA	30.1%	Fund 98 days vs Benchmark 45 days
Tax Management NZ Limited	12.72%	AA	32.4%	
Cooperatieve Rabo U.A.	10.13%	A	37.5%	Yield to Maturity Fund (gross) 5.04% vs Benchmark 4.44%
Bank of New Zealand	9.93%			
Westpac New Zealand Ltd	9.58%			

Market Commentary

With no RBNZ meetings, employment numbers or inflation updates released in the month of December, expectations were for calm waters for short-term interest rates. However, upon the release of third quarter's GDP these expectations were thrown to the wind, with GDP coming in at a remarkably robust +2.0% for the quarter. To put some colour around the strength of this print, the RBNZ were forecasting +0.8% in their November MPS, the median market analyst was at +0.9% and the most bullish analyst forecast was only +1.3%. This strong surprise to the upside combined with the RBNZ's recent statements has seen markets redouble their belief the RBNZ will continue to aggressively front load hikes as we move into a new year.

The detail of third quarter GDP shows broad based strength, with both services and goods-producing activity delivering strong numbers at +2.0% and +2.4% respectively. The opening of New Zealand's border continues to support large gains in the transport sector +9.7%, with strength also seen in business services +3.2%, healthcare +5.1% and Arts and Recreation at +1.6%. On the negative side retail trade activity declined 0.7% for the quarter, likely in response to household balance sheets beginning to come under pressure from the twin forces of inflation and rising mortgage rates.

Looking ahead to 2023 we note the following: Economic activity has been remarkably resilient thus far and the labour market remains tight, however GDP is backwards looking and clearly shows support from the border reopening which will have some elements that are one-off in nature. The return of tourism will be a positive driver and is starting from a very low base, which will somewhat offset weakness from domestic consumers in some sectors. The impact of inflation and increased mortgage rates on households is perhaps beginning to show as evidenced by the weaker retail trade activity numbers. The impact of a higher OCR is lagged and will increasingly be felt in 2023 along with the potential for a global growth slowdown. Inflation remains unpalatably high however the impetus on inflation from domestic demand will weaken in 2023. This all points to the RBNZ continuing to front load hikes at the start of the year, albeit with a near term limit to the level of the cash rate likely approaching to allow the assessment of the cumulative effects of the very rapid hikes made over 2022.

Fund Commentary

The fund performed well over the month and quarter outperforming its benchmark. The fund is increasingly looking for opportunities to add duration where appropriately compensated as the hiking cycle matures. The fund also continues to target investment maturities around the RBNZ nearest two meeting dates to allow for rapid reinvestment. Moving into 2023 we continue to expect the RBNZ to front load hikes and for inflation to remain above 3%, albeit declining from its current peak. We are rapidly approaching a near term limit to the OCR in terms of what households can bear without time for incomes to adjust, whilst the global growth backdrop looks increasingly weak. In this environment investment opportunities with rates in the mid to high fives look attractive.

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	Strategy Launch
All investments will be in New Zealand dollars	0.00% / 0.00	\$850m	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.

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