Factsheet 31 January 2023

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

- Fourth quarter CPI came in at +1.4% for the quarter and 7.2% for the year – in line with market expectations however below RBNZ forecasts (+1.7%).
- Annual CPI growth has technically declined for two quarters from Q2's peak of 7.30%, with Q3 at 7.23% and now Q4 at 7.22%.
- Whilst positive to see CPI growth slowing, it has yet to show meaningful declines remaining at near 30-year highs and well above the RBNZ band. Restrictive policy settings will be needed for some time yet.

Fund Highlights

- The fund holds a longer than benchmark duration position reflecting a view that cash rates will peak in early 2023.
- The RBNZ's hiking cycle is well progressed and likely entering its latter stages. We are looking for opportunities to add to the fund's duration reflecting the lateness of the cycle.
- The fund's shorter duration positions are targeted around the nearest two OCR meeting dates, allowing for rapid reinvestment on decisions and any potential pivots.

Performance

	One month	Three months	One year	Three years (p.a)	Five years (p.a)	Ten years (p.a)
Wholesale[1]	0.42%	1.14%	2.96%	1.80%	2.16%	2.93%
Benchmark[2]	0.38%	1.05%	2.65%	1.20%	1.42%	2.09%
Retail[3]	0.40%	1.06%	2.66%	1.50%	1.83%	
KiwiSaver[3]	0.39%	1.02%	2.52%	1.36%		

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).

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.

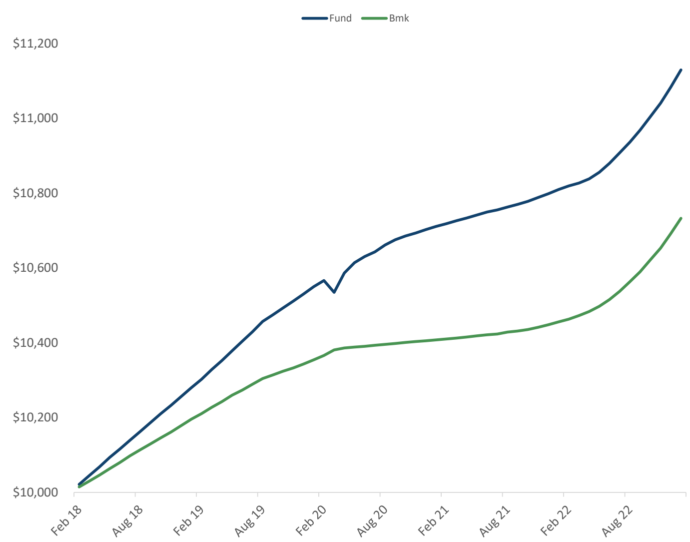
Overview

The strategy aims to generate income by constructing an actively managed investment portfolio of short-term deposits and bonds whilst preserving capital value.

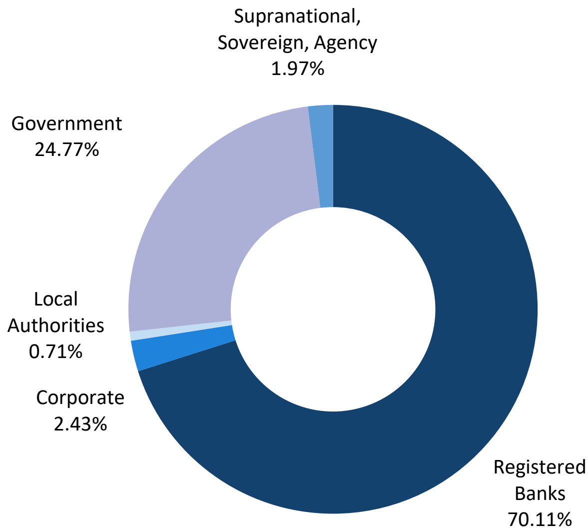
Objective

The fund aims to outperform the benchmark return by 0.20% per annum before fees, expenses and taxes over a rolling three year period.

Five Year Cumulative Performance, $10,000 invested[1, 2]



Asset Allocation



Top 5 Issuers	(%)
NZ Tax Trading Co	13.18%
Tax Management NZ Limited	11.59%
ANZ Bank New Zealand	10.47%
Cooperatieve Rabo U.A.	10.42%
Industrial and Commercial Bank of	9.23%

Credit Quality	(%)
AAA	27.3%
AA	33.8%
A	38.9%

Duration
Fund 86 days vs Benchmark 45 days

Yield to Maturity
Fund (gross) 5.11% vs Benchmark 4.62%

Market Commentary

With a large part of the country on holiday, no RBNZ meeting, limited domestic economic releases and minimal corporate issuance, January is typically a quiet month in rates markets. Notwithstanding this, January did see the release of fourth quarter CPI which came in at +1.4% for the quarter (+7.2% for the year), in line with market expectations however below RBNZ forecasts (+1.7%). CPI growth has technically declined for two quarters from 2Q's peak of 7.30% although is yet to show declines of meaningful size. We note CPI remains near 30-year highs, and well above the RBNZ's target and whilst the rate of OCR increases will inevitably slow in 2023 restrictive policy settings will likely be required for some time yet.

Looking to the detail of 4Q CPI we note the beginning of a potential trend of tradable inflation moderation now down 0.53% from Q2's peak to sit at 8.19%. This has the potential to be a meaningful slowing impetus to inflation as risks of a global slowdown build. Unfortunately, this alone will not be sufficient for the RBNZ to get inflation back into its 1-3% band with non-tradeable (domestic) inflation yet to show moderation - remaining steady at 6.56% and still up on Q2s level of 6.33%. For the RBNZ to succeed in getting inflation under control it needs to see a meaningful reduction in domestic inflation pressures. This will be no easy task with a central government election on the horizon that is likely to focus around cost of living with the backdrop of what continues to be a remarkably tight labour market. In short, the RBNZ will need to continue to maintain restrictive policy settings for some time yet to take the heat out of domestically driven inflation.

The RBNZ's first meeting of 2023 is in February, expectations are for continued hikes, however markets increasingly look for hints of a pivot in monetary policy strategy towards pausing and observing the impacts of hikes made thus far. To make this pivot the RBNZ will need to see clear signs inflation has turned the corner. Indicators thus far are tentatively positive in this respect however not yet sufficient to warrant a pause. Key for this pivot to occur will be some sign domestic inflation pressure is moderating, a continuation of declining tradeable inflation pressures and likely unemployment meaningfully increasing.

Fund Commentary

The fund performed well in January returning 0.42% modestly outperforming its benchmark which returned 0.38%. Over the month of January 90-day bank bills increased 0.38% to end the month at 4.93%, whilst 1-year swap declined 0.20% to end at 5.28%. The fall in longer term swap rates positively impacted fund performance and reflects a growing view in the wider market that the RBNZ may pivot to a "hold and observe" strategy vis-à-vis a "hike at pace" strategy. We agree with this sentiment, however, this pivot does not mean cuts are imminent. The fund continues to use a patient approach to adding duration where appropriately compensated – this was not the case in January as such duration was faded. In implementing this strategy the shape of the short term interest rate curve will become of increasing importance over 2023 as a flattening will inevitably occur as will the possibility of a inverted curve with higher rates offered for shorter investment terms. Should the curve become inverted adding duration will need to be finely balanced against higher yield offered for shorter tenors and our expectations around RBNZ easing.

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	$830m	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 month.

Contact Us
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