

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 moved up 4 basis points ending the month at 0.345% - this move appearing to be borrowing demand driven rather than a reaction to economic data.
- Q4 GDP was much weaker than expected, falling 1% QoQ - a significant disappointment versus market expectations of +0.1% and the RBNZ's most recent baseline scenario from its February Monetary Policy Statement of 0%.
- The Government announced a raft of new measures around housing designed to "tilt the balance" of the housing market to first home buyers.

Fund Highlights

- The fund holds a portfolio of high quality credits which are expected to perform well in an environment of low and stable short term interest rates.
- A longer than benchmark duration position has been maintained reflecting a view that interest rates will remain stable for some time.
- Returns are likely to moderate over the coming months as proceeds from maturities are reinvested at current prevailing market interest rates.

Performance

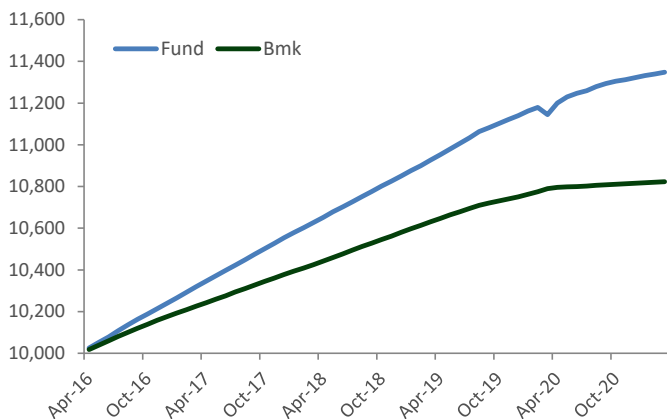
	One month	Three months	One year	Three years (p.a)	Five years (p.a)	Ten years (p.a)
Wholesale ¹	0.07%	0.22%	1.82%	2.21%	2.56%	3.30%
Benchmark ²	0.03%	0.07%	0.31%	1.26%	1.59%	2.29%
Retail ³	0.05%	0.14%	1.51%	1.86%	2.21%	
KiwiSaver ³	0.04%	0.11%	1.38%	1.93%		

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.

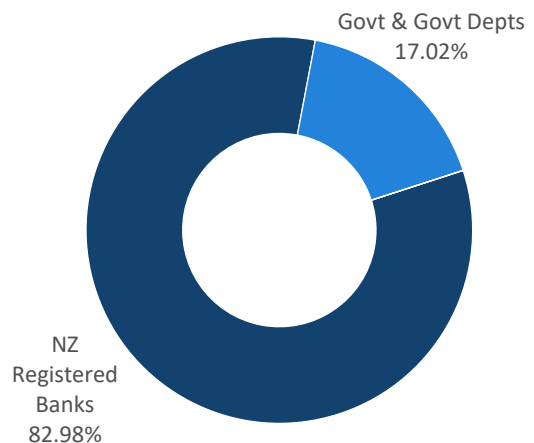
Overview

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	15.59%	AAA	17.02	Fund 112 days vs Benchmark 45 days
Rabobank	12.08%	AA	40.45	
Kiwibank Ltd	11.79%	A	42.53	Yield
ANZ Bank	11.65%			Fund (gross) 0.82% vs Benchmark 0.29%
ASB Bank Limited	9.85%			

Market Commentary

Short interest rates moved up modestly over the month with 90-day bank bill rates up 4 basis points (to 0.345%) and 1-year swap rates up 3 basis points (to 0.36%). These moves appear to be borrowing demand driven rather than a reaction to economic data and government policy released over the month. Here we note two key pieces of information, first, GDP disappointed falling 1% QoQ against market expectations of +0.1% growth. Second, the Government announced a raft of new measures around housing designed to cool the market which included removing tax deductibility of interest on residential investment properties and an extension of its bright line capital gains tax. These two items considered alone would be expected to place downward pressure on interest rates which was reflected in the rates market for longer terms most notably the belly of the curve (terms of 3-7 years) however short rates moved in the opposite direction indicating funding demand was dominating short term securities.

The 4Q GDP's weak print was a surprise and raises questions around the composition of NZ's economic performance through the pandemic including its associated lockdowns and boarder closures. Areas of primary weakness were "retail trade and accommodation" (down 5.04% QoQ) and "construction" (down 8.65% QoQ). The former of these two shows the importance of the international tourist over New Zealand's peak summer visitor period with domestic demand simply unable offset this loss despite residents having no choice but to holiday locally with boarders closed. The fall in construction, however, perhaps shows capacity constraints are an issue in some parts of the economy indicating these sectors may struggle to continue to contribute to growth in 2021. Anecdotally this points to extra hours being worked as the country came out of lockdown in Q3 with limits being met in terms of labour and resource availability in the fourth quarter. This is not surprising with closed boarders removing the option of bringing in skilled labour from offshore and supply chains continuing to struggle in delivering imported materials and equipment.

The Government announcement of new measures around housing are likely to impact the short-term interest rate market – primarily in that the RBNZ will want to observe the impact of these measures before taking any associated monetary policy actions. Looking at these announcements while putting aside any arguments around their effectiveness we can make the following observations: (1) A property investors cost of capital has increased therefore they should pay less for a property all else constant; this could moderate price growth. (2) Absent supply of new rental properties or population change, there should be an upwards impact on rents in the longer term as the cost of holding a rental has increased. (3) Confidence may be diminished as the market works through the real-world impact of these changes over the coming months, this may produce a downward impact on consumption. (4) The policies do not form a positive reinforcement reward structure for property development, rather this set of economic activity is simply not made worse off than it previously was. Ultimately this should take some pressure off the RBNZ and allow them to retain a stimulatory stance for longer than they could if they property market were to continue to see rapidly increasing prices.

Fund Commentary

The fund performed well over the March month and quarter. The fund holds a longer than benchmark duration position which provides a yield enhancement over the 90-day bank bill index with benefits accruing primarily from the slope of the credit curve. The 4Q GDP was weaker than expected and the Government announced a raft of measures designed to cool the housing market. Prior to these measures being announced the RBNZ had steadfastly asserted that stimulatory monetary policy will be required for some time. These developments remove some pressure from the RBNZ to cool sectors of the economy seen as too hot and should provide the RBNZ a level of comfort to stay the course and retain a stimulatory monetary policy stance. In this environment we expect short term interest rates will be stable and the fund's long duration position will perform well.

Key Fund Facts

Distributions

Wholesale fund:	Calendar quarter
Retail fund:	Calendar quarter
KiwiSaver fund:	Does not distribute

Estimated annual fund charges (incl. GST)

Wholesale:	Negotiated outside of unit price
Retail:	0.30%, refer PDS for more details
KiwiSaver:	0.45%, refer PDS for more details

Hedging

All investments will be in New Zealand dollars

Buy / Sell spread

0.00% / 0.00

Strategy size

\$739.6m

Strategy Launch

October 2007

Compliance

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

Contact Us www.nikkoam.co.nz | 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 information is for the use of researchers, financial advisers and wholesale clients. 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 an Authorised Financial Adviser 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.