

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

- ANZ bank's chief economist issued a revised OCR call arguing for back-to-back 50bp hikes in April and May.
- In sympathy with ANZ arguments the market revised its pricing of the OCR path, increasing both the rate of increases and terminal value of the current tightening cycle.
- At month end ~2% of OCR rises were priced for 2022, an increase of 0.41% from where pricing sat at the beginning of the month. Short term interest rates moved up accordingly increasing at a pace not seen since 2004.

Fund Highlights

- The fund is using a barbel 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

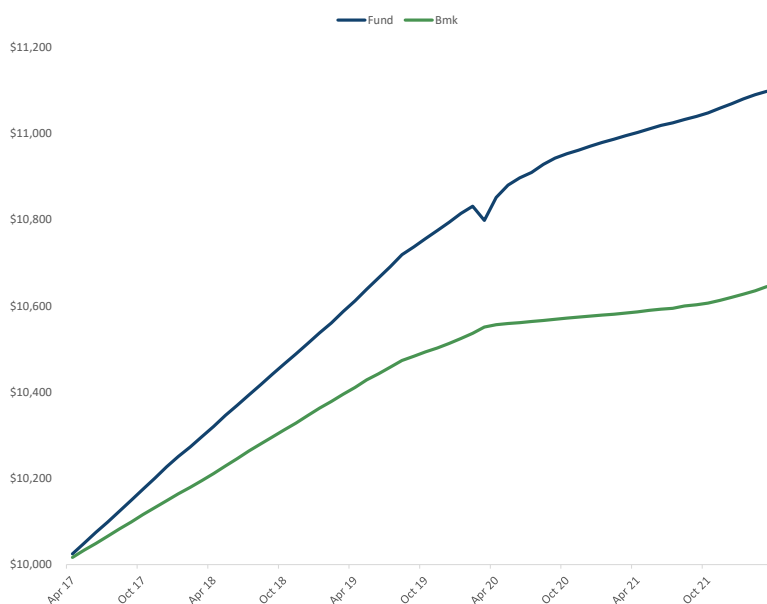
	One month	Three months	One year	Three years (p.a)	Five years (p.a)	Ten years (p.a)
Wholesale ¹	0.07%	0.26%	0.94%	1.58%	2.11%	3.00%
Benchmark ²	0.09%	0.24%	0.58%	0.79%	1.26%	2.07%
Retail ³	0.05%	0.20%	0.66%	1.27%	1.77%	
KiwiSaver ³	0.04%	0.17%	0.52%	1.22%		

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.



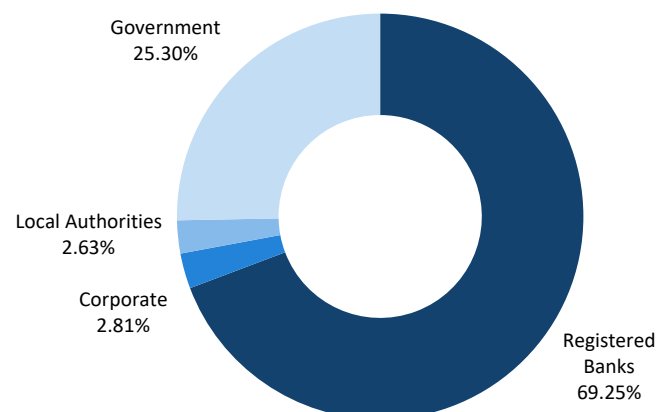
Overview

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
Tax Management NZ Ltd	12.81	AAA	25.4	Fund 110 days vs Benchmark 45 days
NZ Tax Trading Co	12.49	AA	38.4	
Bank of New Zealand	9.97	A	36.2	
Westpac New Zealand Ltd	8.67			Yield to Maturity
Cooperatieve Rabo U.A.	7.74			Fund (gross) 2.18% vs Benchmark 1.35%

Market Commentary

March started with rates in a holding pattern, with markets leaving pricing much unchanged awaiting future economic data releases. This changed in the second week when the ANZ bank's chief economist issued a revised OCR call arguing for back-to-back 50bp hikes in April and May. The nub of their call was inflation would continue to accelerate towards a level that would become unpalatable for the Reserve Bank, peaking around 7.4%. This combined with higher oil and commodity prices on the back of the Ukraine invasion and historically low unemployment would force the Reserve Bank to stronger action.

The report was not predicated off new economic data but rather engendered a debate around just how strong inflation is becoming. It's note worthy that as of month end no other major bank had joined ANZ in calling for 50bps OCR hikes, however market pricing indicates a growing agreement with this call. At our time of writing, BNZ has just joined the 50bps camp, albeit in a moderated manner, calling for a very finely balanced 25 in April and a 50 in May. BNZ's OCR call is more in line with our thinking, a 50bps move in April is certainly in play, yet risks are stronger for May's meeting as 1Q22 CPI and unemployment will not be available before April's meeting. We would further note that the economy is seeing increasing headwinds and uncertainty, the Reserve Bank has a finely balanced decision to make with risk that too strong or quick a tightening could tip the economy into recession whilst having limited impact on inflation, especially more internationally driven tradeable inflation.

All in all, the above resulted in substantial changes in short term interest rates. The 90-day bank bill increased by 28.5bps, 1-year swap by 53.7bps and the market increased the OCR path by circa 41bps for calendar year 2022 alone. To put the size of these moves into perspective, in basis points, the increase in 90-day bank bill is the largest seen since September 2004, the increase in 1-year swap the largest since March 2002 and the move in the OCR path now sees the OCR ending the year at 3%, a level last seen in July 2015. Finally, the level of OCR increases now priced is substantial and inflation currently has a large supply or internationally driven component. Faster and higher OCR moves will increase the probability New Zealand's economic growth stalls or declines. The impact on internationally driven inflation (from a higher OCR) is likely to be limited, whilst the slowing of discretionary domestic expenditure could be severe. Should this faster and higher OCR path be pursued potential of a shorter tightening cycle will grow.

Fund Commentary

The fund returned 0.26% over the quarter outperforming its 90-day bank bill index which returned 0.24%. The fund has been implementing a barbel investment strategy, with short positions concentrated around the upcoming Reserve Bank meeting dates complemented with some longer positions to take advantage of the higher rates offered for tenor. In general, this strategy has performed with the Reserve Bank thus far implementing 0.25% OCR increases rather than more aggressive moves. March has seen higher pricing of near-term OCR increases along with a higher terminal OCR level. This has resulted in somewhat weaker performance of our strategy in March relative to January and February. We nonetheless remain comfortable with this strategy and see the potential for outperformance over time. The level of slope available in the term curve out to 1-year is meaningful as is slope in some sectors of the credit curve. In addition, there are signs of growing headwinds to growth which may see a slower than priced OCR path eventuate.

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	\$841.6m	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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