

Factsheet 31 October 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 month kicked off with the RBNZ lifting the OCR by 50 basis points to 3.5% as widely expected.
- The RBNZ maintained a clear tightening bias, explicitly noting a 75 basis point hike was considered.
- Third quarter CPI came in much stronger than the market and the RBNZ expected with inflation looking increasingly pervasive and domestically entrenched.

Fund Highlights

- The fund holds a longer than benchmark duration position reflecting a view that cash rates will peak in early 2023.
- The RBNZs hiking cycle is well progressed and likely entering its latter stages, the fund is looking for opportunities to add duration reflecting the lateness of the cycle.
- The market is currently pricing a peak OCR higher than the Reserve Banks most recent forecast, the fund is seeking to capitalize on this divergence.

Performance

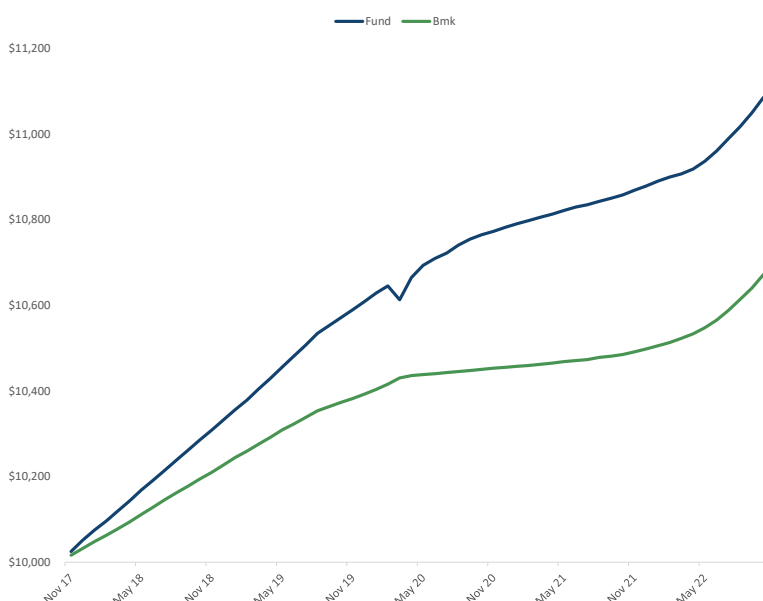
	One month	Three months	One year	Three years (p.a)	Five years (p.a)	Ten years (p.a)
Wholesale ¹	0.33%	0.88%	2.10%	1.60%	2.08%	2.92%
Benchmark ²	0.30%	0.80%	1.78%	0.95%	1.31%	2.05%
Retail ³	0.31%	0.83%	1.81%	1.29%	1.75%	
KiwiSaver ³	0.30%	0.78%	1.68%	1.16%		

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.

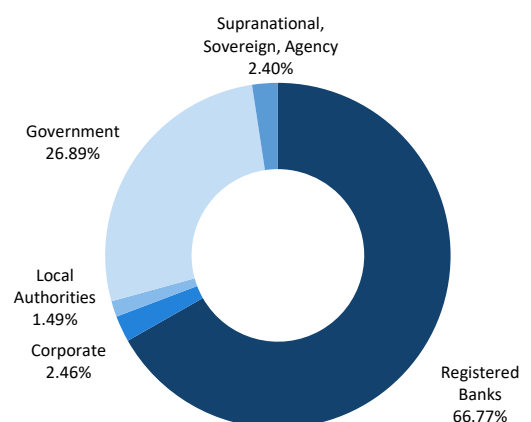
Overview

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	13.78%	AAA	32.8%	Fund 91 days vs Benchmark 45 days
Tax Management NZ Limited	13.11%	AA	29.8%	
Cooperatieve Rabo U.A.	9.74%	A	37.4%	Yield to Maturity
ANZ Bank New Zealand	9.17%			Fund (gross) 4.05% vs Benchmark 3.86%
Bank of New Zealand	9.16%			

Market Commentary

The month kicked off with the RBNZ lifting the OCR by 50 basis points to 3.5% as widely expected. October’s meeting was a monetary policy review, with no accompanying forecasts - as such markets were left to scan the RBNZ’s statement for clues as to the bank’s next move. Within the statements the most tangible point of note was RBNZ explicitly stating it “considered” a 75 basis point hike. This prospect caught the markets imagination with the probability of this occurring for November’s meeting increasingly priced as we approached the release date of third quarter CPI, which proved the pivotal event of the month, coming in significantly above expectations.

Prior to the release of third quarter CPI market consensus was that inflation had already peaked and would begin to fade. When CPI came in at 2.2% for the quarter (7.2% for the year), surprise was universal. To put some colour around this, the median expectation was 1.5% - all but one party expected 1.8% or under and the highest estimate was 2.0%. Looking into the detail only increased concern with inflation looking pervasive and increasingly domestically driven. Necessities of housing, food and transport all aggressively increased. We note “housing related” inflation remained elevated at 2.3% for the quarter (8.7% for the year) despite a rapidly cooling housing market. Food prices continued to rocket up increasing 4.1% for the quarter (8% the year), this being the largest quarterly increase since the late 1980s. While The Transport group continued to see price increases up 1.7% for the quarter (11.7% the year) despite expectations it could have fallen on the back of declining oil prices.

These strong increases across necessities are highly concerning, however it’s perhaps more concerning how pervasive inflation is in general, we note 9 of the 11 CPI groups showed quarterly prints above 1% and that these 9 groups accounted for some 90% of the CPI basket. In short there was little to no good news in the CPI figures which when combined with the RBNZ’s mention of a 75bp increase being considered resulted in markets revising up both the pace of hikes and their expectation of the terminal OCR level.

As we leave October behind us, markets now eagerly await the RBNZ’s last OCR review for the year with expectations increasingly that this will see the RBNZ use a 75 basis point hike for the first time in this cycle.

Fund Commentary

The fund performed well in October returning 0.33% outperforming its benchmark the 90-day bank bill index which returned 0.30%. With inflation yet to show signs of meaningfully slowing and the labour market remaining beyond capacity, interest rates took a step change up reflecting a belief that the RBNZ is yet to make sufficient inroads for demand destruction to begin to slow inflation. Over the month 90-day bills increased 25.5bps ending at 4.1%, 1-year swap increased 38bps ending the month only a shade under 5% a level last seen in 2008 and terminal OCR expectations moved into the low 5% range. The markets attention is now firmly on the last remaining OCR review of the year with this the only scheduled opportunity for the RBNZ to move the OCR and update markets on their view of the state of play of the battle against inflation until February. The fund continues to take risk mitigating positions around the nearest two meeting dates, combined with opportunistic longer positions when sufficiently compensated for the potential of an OCR in the 5% range.

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
All investments will be in New Zealand dollars		0.00% / 0.00	\$820m
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.			
		Strategy Launch	October 2007

Compliance

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

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 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.