

Factsheet 30 November 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 RBNZ increased the cash rate by 75bps in its largest hike since the OCR was introduced in 1999.
- The OCR is now at 4.25%, its highest level since December 2008.
- The RBNZ's statement was more hawkish than expected, the minutes revealing the committee was seriously considering only between either a 75bps or 100bps hike.

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, the fund is looking for opportunities to add 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

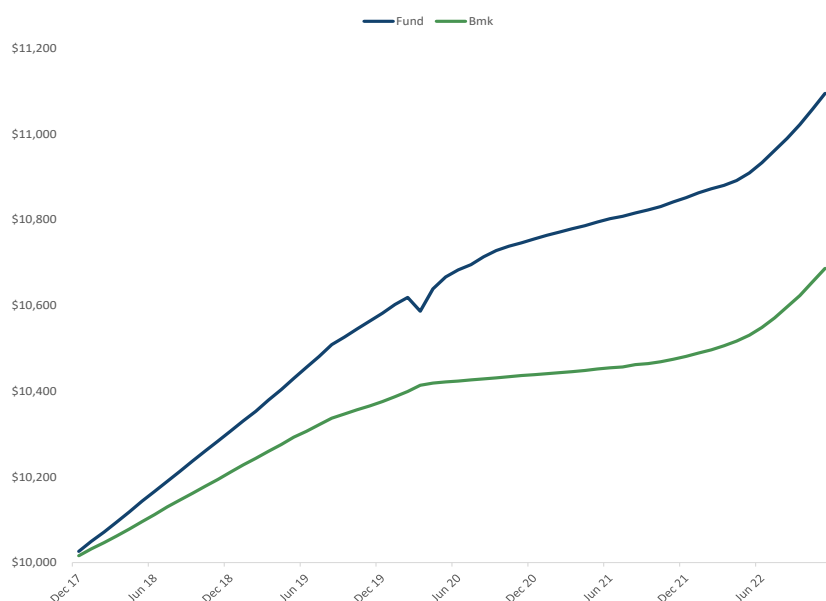
	One month	Three months	One year	Three years (p.a)	Five years (p.a)	Ten years (p.a)
Wholesale ¹	0.33%	0.96%	2.34%	1.65%	2.10%	2.91%
Benchmark ²	0.30%	0.85%	2.03%	1.02%	1.34%	2.06%
Retail ³	0.30%	0.88%	2.04%	1.35%	1.76%	
KiwiSaver ³	0.29%	0.84%	1.91%	1.21%		

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.

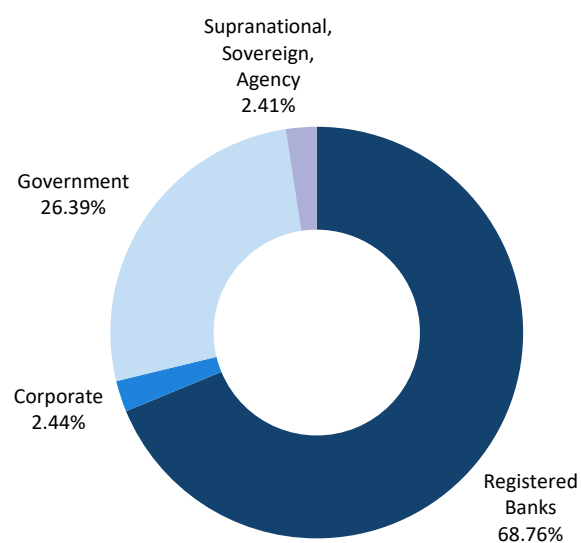
Overview

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	13.29%	AAA	32.4%	Fund 116 days vs Benchmark 45 days
Tax Management NZ Limited	13.10%	AA	30.0%	
Bank of New Zealand	10.63%	A	37.6%	
Cooperatieve Rabo U.A.	10.56%			Yield to Maturity
ANZ Bank New Zealand	9.01%			Fund (gross) 4.97% vs Benchmark 4.35%

Market Commentary

In its final meeting of the year, the RBNZ increased the cash rate by 75bps, its largest hike since the OCR was introduced in 1999. This action was not unexpected with markets pricing in 68bps of hikes prior to the meeting and three-quarters of the analyst community expecting the 75bps move. This is not to say there were no surprises - with both the statement and forecasts coming in decidedly more hawkish than expected.

Going into the meeting, debate in markets centred around whether a 50bps or 75bps hike would be chosen. Those arguing for the former noting the lateness of the cycle and the lag of monetary policy; whilst those in the latter camp more concerned around inflations persistence, labour market heat and the risk of a wage-price spiral building from increasingly entrenched inflation expectations. In relation to the lateness of the cycle it is also worth remembering that the RBNZ was not only one of the first central banks to begin hiking this cycle but also one of the first to accelerate to 50bps moves. At face value with a 75bps hike delivered, there appears little surprise in the decision – however the minutes of the decision revealed the committee was only seriously considering either a 75bps or 100bps hike and that whilst a 50bps hike was presented it was not really on the table. This surprisingly hawkish tone was evident in other components of the statement. The OCR track was meaningfully lifted from 4.1% to 5.5%; a whopping 140bps increase. Further, the RBNZ’s projections now suggest this peak level of 5.5% would need to be maintained for a full 12 months. This tone continued into statements around the impact of OCR rises executed thus far with assistant Governor Silk noting that “monetary conditions have not been as contractionary” as expected, that the neutral level of interest rates has likely risen, and therefore a higher peak OCR would be required. This discomfort around the neutral level of interest rates was alluded to in the August’s statement and now expanded upon with updated estimates putting the short-term neutral level of interest rates at 3.6% - meaningfully above previous estimates that suggested a level in the low twos. This casts a new light on the impact of the OCR level in August (3%) and October (3.5%) with both these levels no longer viewed as restrictive under this updated estimate.

November’s meeting was the RBNZ’s last for 2022. We now have a longer than usual a gap with the RBNZ’s next scheduled meeting circa three months after November’s meeting - significantly longer than the usual ~7-week review interval. This longer than usual hiatus will likely see some level of stability ensue in short term interest rates into January.

Fund Commentary

The fund performed well in November returning 0.33% outperforming its benchmark the 90-day bank bill index which returned 0.30%. With the RBNZ delivering a 75bps hike accompanied by a step change up in its level of hawkishness bank bill rates headed north, 90-day bills increased 0.31% to end the month at 4.41% whilst 1-year swap increased 0.21% to end at 5.21%. The fund continues to implement a strategy of targeting maturities around the RBNZ’s next two meeting dates to allow for rapid reinvestment of maturities as the RBNZ delivers OCR hikes. These risk mitigating front-end positions are combined with opportunistically taking positions out towards 1-year in term where appropriately compensated for an OCR in the 5.5% to 5.75% range. All else equal we expect to continue this strategy as we approach the RBNZ’s next meeting in February 2023, however note the hiking cycle is now well developed and it may become increasingly appropriate to shift to a less targeted maturity profile for front-end positions.

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	\$819m
Strategy Launch 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.

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