

Nikko AM NZ Cash Strategy

Monthly Update 30 April 2024

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 held the cash rate at 5.5%. This was expected and fully priced by the market.
- The RBNZ remains confident consumer price inflation will return to within the 1-3% target range this calendar year.
- Economic data continues to soften. Annual CPI increase fell to 4%, business confidence fell and the annual unemployment rate increased to 4.3%

Fund Highlights

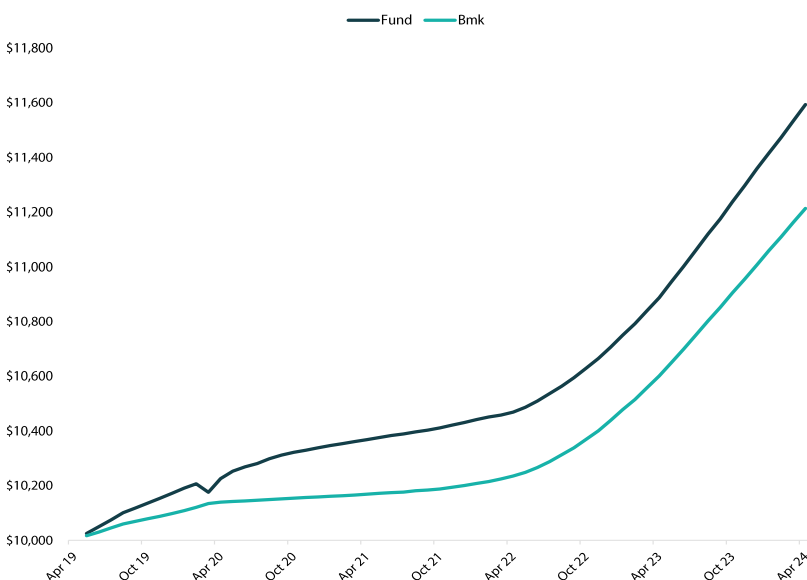
- The fund had a positive return for the month and outperformed its benchmark.
- The fund holds a longer than benchmark duration position reflecting a view that the RBNZ's hiking cycle is complete.
- We are looking to maintain a long duration position; however, this may be tempered should markets price cuts at a too rapid pace.
- Credit quality remains high and is expected to perform well in the face of a recession.

Performance

	One month	Three months	One year	Three years (p.a.)	Five years (p.a.)	Ten years (p.a.)
Wholesale¹	0.52%	1.56%	6.49%	3.80%	3.00%	3.22%
Benchmark²	0.46%	1.40%	5.78%	3.32%	2.32%	2.45%
Retail³	0.54%	1.49%	6.20%	3.49%	2.69%	
KiwiSaver³	0.54%	1.49%	6.15%	3.38%	2.61%	

1. Returns are before tax and before the deduction of fees and including tax credits (if any).
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, Senior Fixed Income Manager and Matthew Johnson, Fixed Income Manager.

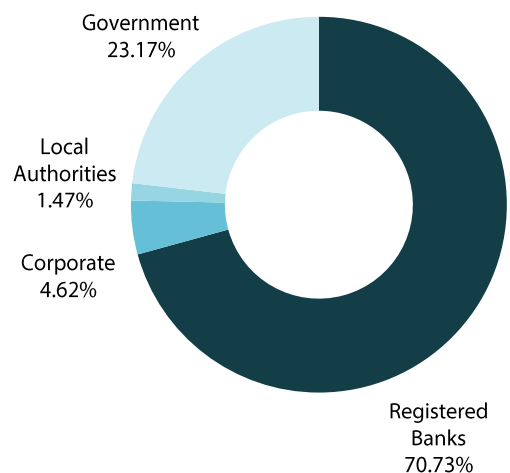
Overview

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.

Sector Allocation



Top 5 Issuers	(%)	Credit Rating	(%)	Duration
Westpac New Zealand	13.89	AAA	23.17	Fund 83 days vs Benchmark 45 days
Tax Management NZ	12.93	AA	32.43	Portfolio Yield (YTM with FRN yield to next reset date) Fund (gross) 6.27% vs Benchmark 5.60%
NZ Tax Trading Co	10.24	A	44.40	
Kiwibank	8.74			
ASB Bank	6.18			

Market Commentary

The Reserve Bank stuck to their script at this month's policy meeting. They left the cash rate at 5.5% and noted the Committee is confident that maintaining the OCR at a restrictive level for a sustained period will return consumer price inflation to within the 1-3% target range this calendar year. Just to even up the messaging they also warned of near-term price pressures remaining.

We note that the 2023 June and September quarters delivered CPI increases of 1.1% and 1.8% respectively so unless the 2024 results are above these levels, which seems unlikely, it is easy to agree with the RBNZ that the annual CPI increase can fall quickly and that further cash rate rises are off the table.

Further evidence the New Zealand economy is weak came in the form of falling business confidence levels, unemployment rising from 4.0% to 4.3% and job ads falling for the seventh quarter in a row. Add in the job cuts occurring in the public sector with ongoing mortgage stress and it is easy to understand why consumer spending is falling. With weaker demand across the economy, in our view, it is only a matter of time before inflation stalls and rate cuts occur, the important question is by how much.

90-day bank bills remain in a holding pattern and were stable over the month yielding 5.63%. One-year swap rates increased in yield from 5.3% to 5.5% over April as the market's expectation of the timing of the first rate cut was pushed out.

The next Reserve Bank Monetary policy statement is scheduled for May 22 and whilst consensus expectations are for little change in their statements and stance, markets will be highly attuned to any hints that Reserve Bank's focus is becoming more balanced in respect to economic data. Any change here will provide direction to 90-day bills over the coming months.

Fund Commentary

The fund performed well in April returning 0.52% outperforming its benchmark the 90-day Bank Bill Index which returned 0.46%.

90-day bills were much unchanged as the Reserve Bank stuck to its on-hold higher for longer script in its Monetary policy review, providing little in the way of new forward guidance. Conversely 1-year swap increased 20bps to 5.5% as markets reluctantly accepted the RBNZ was sticking with its plan of a higher for longer OCR.

We note domestic data is weak and inflation is falling, albeit slower than desired. We expect to see CPI fall over the coming quarters as we drop off the relatively larger prints of 1.1% for 2Q23 and 1.8% for 3Q23. There is also potential that some of the larger domestic CPI drivers will moderate over the coming year including (1) rents where the government has tightened visa settings, (2) building costs, where the government has deregulated building materials and consents have fallen and (3) insurance, where we have seen a structural repricing of risk by reinsurers which may not be repeated as strongly in the coming year. In aggregate these factors could see CPI back inside the RBNZ's 1-3% target band later this year and the funds longer duration positions perform.

Key Fund Facts

<p>Distributions</p> <p>Wholesale: Calendar quarter Retail: Calendar quarter KiwiSaver: Does not distribute</p> <p>Estimated annual fund changes (incl. GST)</p> <p>Wholesale: Negotiated outside of unit price Retail: 0.30%, refer PDS for more details KiwiSaver: 0.30%, refer PDS for more details</p>	<p>Hedging: All investments will be in New Zealand dollars</p> <p>Exclusions: Controversial weapons</p> <p>Restrictions: Adult entertainment, gambling, fossil fuels, alcohol stocks, tobacco stocks. For more information please refer to the Statement of Investment Policy and Objectives (SIPO) on our website https://www.nikkoam.co.nz/invest/retail.</p>	<p>Strategy Launch: October 2007</p> <p>Strategy size: \$954.9m</p> <p>Buy / Sell spread: 0.00% / 0.00%</p>
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Compliance

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

Contact Us

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