

Nikko AM NZ Cash Strategy

Monthly Update 31 December 2024

Assets are held in the Nikko AM Wholesale NZ Cash Fund. The Nikko AM NZ Cash Fund (retail) and the GoalsGetter KiwiSaver Scheme Nikko AM NZ Cash Fund invest in units in the wholesale fund, which the commentary refers to.

Market Overview

- The economy continues to be in the doldrums. Third quarter GDP printed an anaemic -1.0% well below market and RBNZ expectations of -0.2%.
- The weak GDP print resulted in market pricing coalescing around a 50bps cut for the RBNZ February meeting.
- Net migration remained at low levels - a headwind to future growth.

Fund Highlights

- The fund holds a longer than benchmark duration position reflecting our view that a prolonged easing cycle has started.
- The fund is positioned for continued cuts, however as these are delivered over 2025 a more neutral strategy may be implemented as the OCR converges towards market expectations for the easing cycles endpoint.
- 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	0.44%	1.38%	6.25%	4.98%	3.48%	3.33%
Benchmark²	0.37%	1.21%	5.55%	4.43%	2.85%	2.57%
Retail³	0.43%	1.32%	5.98%	4.68%	3.17%	2.99%
KiwiSaver³	0.42%	1.30%	5.92%	4.58%	3.06%	

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).

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, Senior Fixed Income Manager.

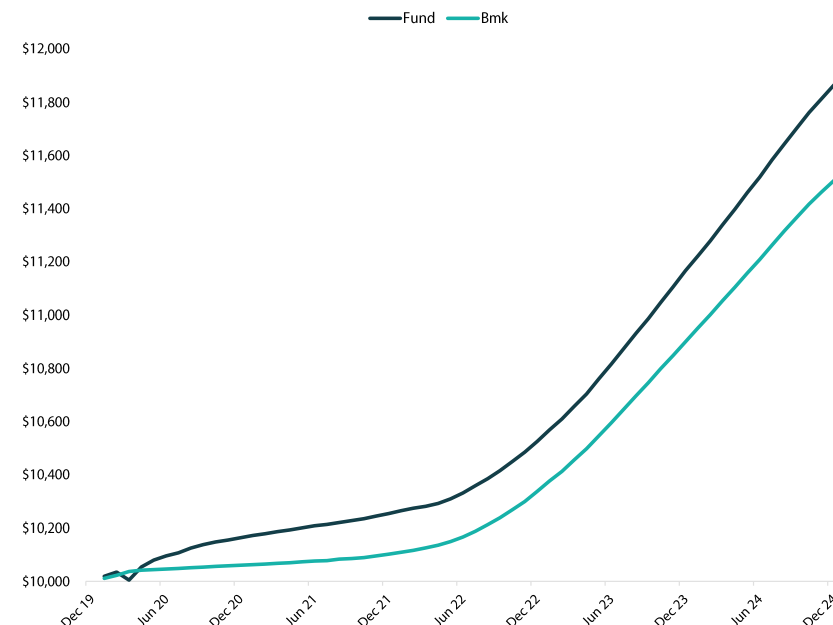
Overview

The strategy aims to generate income by constructing an actively managed investment portfolio of short-term deposits and bonds whilst preserving capital value.

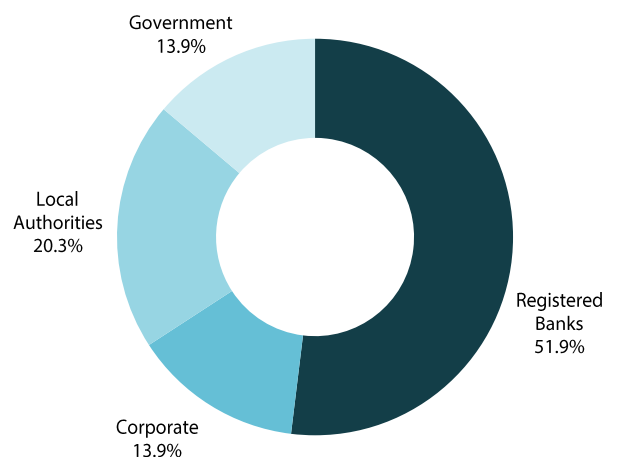
Objective

The fund aims to outperform the benchmark return by 0.20% per annum before fees, expenses and taxes over a rolling three-year period.

Five year Cumulative Performance, \$10,000 invested^{1,2}



Sector Allocation



Top 5 Issuers	(%)	Credit Rating	(%)	Duration
NZ Local Govt Funding Agency	11.51	AAA	31.68	Fund 82 days vs Benchmark 45 days
Westpac New Zealand	10.17	AA	34.01	Portfolio Yield (YTM with FRN yield to next reset date) Fund (gross) 4.81% vs Benchmark 4.27%
NZ Tax Trading Co	7.74	A	34.31	
Cooperatieve Rabo U.A.	7.61			
Housing New Zealand	6.32			

Market Commentary

With no Reserve Bank meeting in December, market attention was firmly focused on third quarter GDP which was widely expected to show a continued contraction. This was well and truly delivered upon with growth coming in at -1% for the quarter - meaningfully below both RB and market expectations of -0.2%. In a similar vein Q2s -0.2% GDP print was significantly revised down to -1.1% cementing in a backdrop of weak historic growth. Whilst GDP is very much a backward-looking indicator these poor numbers confirm the damage an overly high OCR has done to New Zealand's economy. It should also be observed, that all else equal, when the RBNZ puts these numbers into their forecasting model it will reduce their estimate of inflation pressure and therefore the OCR track.

In terms of the RB's next meeting in late February, markets will view GDPs 3Q outturn and 2Q revision as firmly increasing the probably they continued to ease at pace. Its likely expectations will now coalesce around the RB's guided central expectation of a 50bps cut with arguments for a 25bps easing falling to the wayside. There are still significant data to come before the RB's February meeting including the QSBO, labour market data and the CPI. These key data releases will be weighed by the market and any meaningful dovish surprise may see some participants price the probability of a 75bps easing. This notwithstanding, we should remember that three consecutive 50bps cuts are already rapid. Rather than focusing on these meeting by meeting calls we continue to view it as more appropriate to interpret these data in terms the ultimate endpoint of the OCR easing cycle. As we move through 2025 this focus on the end point will grow in importance. Its possible ongoing weak data may see markets price a lower terminal OCR than is delivered. Further, the RB may pause and observe the reaction function of its cumulative easing decisions and take a more measured stance to minimise the probability of letting the inflation genie back out of the bottle.

Fund Commentary

The fund performed well in December quarter returning 1.38% outperforming its benchmark the 90-day Bank Bill Index which returned 1.21%. In sympathy with the weak GDP outturn along with annual CPI at 2.2% now being close to the RB policy target midpoint, short term interest rates fell across the curve. 90-day bills fell 70.5bps to 4.165%, 6-month bills fell 74bps to 3.87% and 1-year swap fell 51bps to 3.57% as such the fund's long duration position continues bear fruit. This aside, as we move through 2025 it will be of increasing importance to focus on the end point of the easing cycle along with the shape of the short-term interest rate curve. We expect to see the return of an upward sloping interest rate curve by the second half of the year. In the interim period duration decisions will need to be carefully weighed against market pricing for the endpoint of the easing cycle as its possible markets could price a lower end point than ultimately delivered.

Key Fund Facts

Distributions Wholesale: Calendar quarter Retail: Calendar quarter KiwiSaver: Does not distribute Estimated annual fund changes (incl. GST) Wholesale: Negotiated outside of unit price Retail: 0.30%, refer PDS for more details KiwiSaver: 0.40%, refer PDS for more details	Hedging: All investments will be in New Zealand dollars Exclusions: Controversial weapons 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	Strategy Launch: October 2007 Strategy size: \$1,311.2m Buy / Sell spread: 0.00% / 0.00%
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Compliance

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

Contact Us

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