

Nikko AM NZ Cash Strategy

Monthly Update 31 January 2025

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 Quarterly Survey of Business Opinion (QSBO) showed pricing intensions are consistent with low and stable inflation and that reduced interest rates are improving confidence albeit from low levels.
- NZ's fourth quarter CPI showed inflation stable and inside the Reserve Bank's (RB) target range at 2.2% for the year.
- Non-tradable inflation continued to move in the right direction printing +0.7% for the quarter taking its annual value to +4.5%. Whilst this is above the RB's target range its direction is pleasing and it is lower than the RB's forecast of +4.7%.

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 | 0.42% | 1.30% | 6.16% | 5.09% | 3.53% | 3.33% |
| Benchmark² | 0.37% | 1.15% | 5.45% | 4.54% | 2.90% | 2.57% |
| Retail³ | 0.40% | 1.24% | 5.86% | 4.79% | 3.23% | 2.99% |
| KiwiSaver³ | 0.38% | 1.19% | 5.80% | 4.69% | 3.11% | |

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.

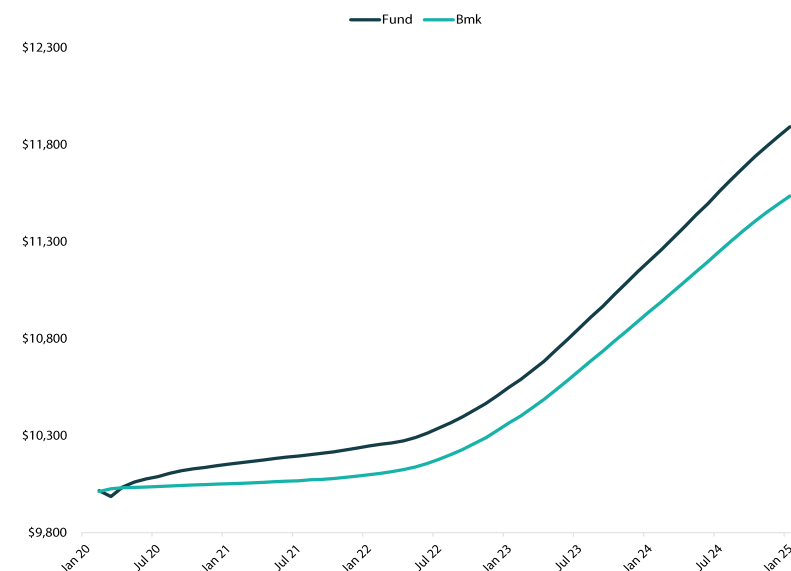
Overview

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

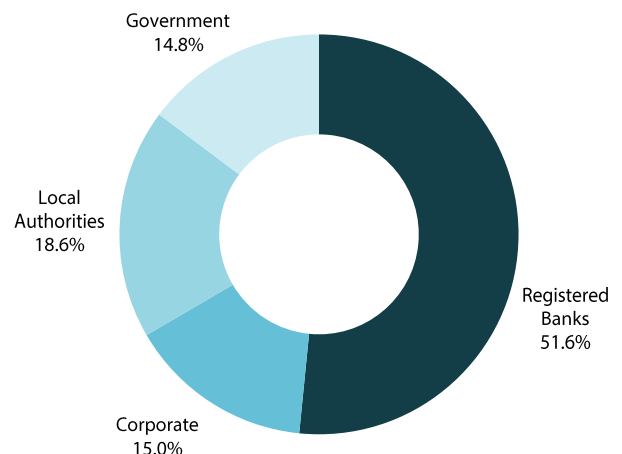
Objective

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 | 11.15 | AAA | 33.23 | Fund 78 days vs Benchmark 45 days |
| Westpac New Zealand | 10.62 | AA | 33.92 | Portfolio Yield (YTM with FRN yield to next reset date) |
| NZ Tax Trading Co | 7.50 | A | 32.85 | Fund (gross) 4.75% vs Benchmark 4.11% |
| Cooperative Rabo U.A. | 7.37 | | | |
| Housing New Zealand | 7.31 | | | |

Market Commentary

Traditionally January is a quiet month for short term interest rates. The Reserve Bank has no scheduled OCR reviews, key market participants run skeleton teams for the first couple of weeks and data releases typically do not occur before the middle of the month. As January progressed the most anticipated data releases were the QSBO (14 January) and fourth quarter CPI (22 January), with markets looking to these surveys to confirm inflation remains constrained and to inform views on the Reserve Bank's likely next move when it first meets for the year to review the OCR on the 19th of February.

Regarding these two key data releases no surprises were delivered, the QSBO suggested the economy was recovering from weak levels and that inflation pressures remain manageable whilst fourth quarter CPI showed stable inflation (+2.2% YoY) nicely inside the Reserve Bank's target range. The Reserve bank would have also been pleased with the trend in non-tradable inflation (+4.5% YoY and +0.7% QoQ) which has now declined for seven consecutive quarters. Whilst it's a fair criticism that non-tradable inflation remains above the Reserve Bank's target range the direction of its movement will provide them much comfort. This comfort would have been reinforced by the QSBO which showed business pricing intensions continue to be consistent with low and stable inflation.

Ultimately, these data affirm our view that the Reserve Bank will continue to ease with a 50bps cut the central scenario for their February meeting. Thereafter, as the year progresses, we expect a more cautious approach to be employed by the Reserve Bank. It is noteworthy that in a January 29 speech the Reserve Bank's Chief Economist affirmed their estimate of a neutral cash rate as currently between 2.5% and 3.5%. We expect as the OCR approaches this neutral range, smaller 25bps cuts along with pauses at some meetings will best allow the Reserve Bank to observe the reaction function of what thus far has been a rapid easing in monetary policy conditions.

Fund Commentary

The fund performed well in January returning 0.42% outperforming its benchmark the 90-day Bank Bill Index which returned 0.37%.

The two key data releases of the month were the QSBO and fourth quarter CPI, both of which supported the narrative that inflation is under control, economic activity weak and that the Reserve Bank should be comfortable to continue to ease. Our central view is these data are consistent with the Reserve Bank cutting the OCR by 50bps in February, after which a more cautious data dependent approach will be taken. Consistent with this move to a more data dependent approach our duration position ended the month relatively unchanged as we wait for further direction from the Reserve Bank in its February statement. In a similar vein over the month interest rates fell across terms out to 1 year, with these falls by and large reflecting the accrual of a likely 50bps easing in February followed by a more moderate continuation of easings over the year which may take the cash rate towards 3%. 90-day bills fell 24.5bps to 3.925%, 6-month bills fell 13.5bps to 3.735% and 1-year swap fell 7bps to 3.496%. These moves provided positive attributions to the fund's long duration position and yield advantage.

Key Fund Facts

| | | | |
|---|--|--|---|
| Distributions | | Hedging: All investments will be in New Zealand dollars | Strategy Launch: October 2007 |
| Wholesale: Calendar quarter | | Exclusions: Controversial weapons | Strategy size: \$1,358.1m |
| Retail: Calendar quarter | | | |
| KiwiSaver: Does not distribute | | 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 | Buy / Sell spread: 0.00% / 0.00% |
| 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 | | | |

Compliance

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

Contact Us

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