

Nikko AM NZ Cash Strategy

Monthly Update 28 February 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 RBNZ delivered on expectations with a 50bps cut taking the OCR to 3.75%.
- The OCR track and statements from Governor Orr guide for continued cuts albeit at a slower pace, with 25bps cuts in April and May the central scenario.
- Market reactions were minimal with the Reserve Bank's statement highly consistent with market expectations.

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	0.36%	1.22%	6.01%	5.19%	3.57%	3.34%
Benchmark²	0.32%	1.07%	5.31%	4.63%	2.94%	2.58%
Retail³	0.33%	1.16%	5.70%	4.88%	3.27%	3.00%
KiwiSaver³	0.33%	1.13%	5.63%	4.78%	3.16%	

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.

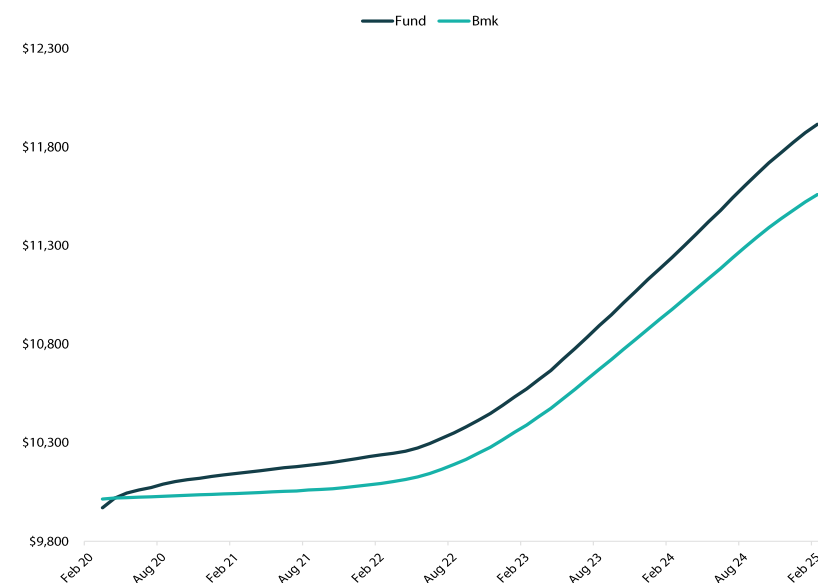
Overview

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

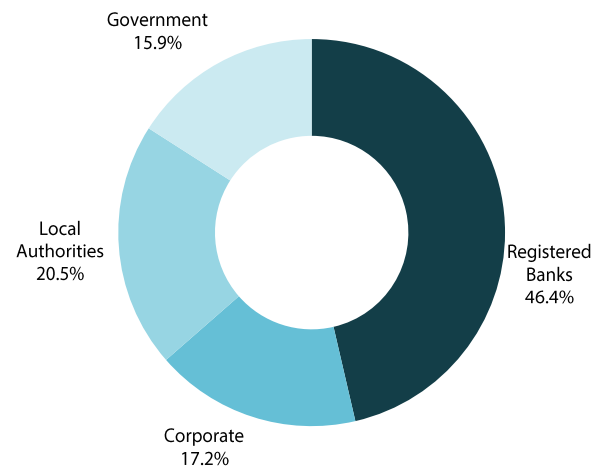
Objective

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	11.54	AAA	36.42	Fund 75 days vs Benchmark 45 days
NZ Tax Trading Co	9.94	AA	31.68	Portfolio Yield (YTM with FRN yield to next reset date) Fund (gross) 4.49% vs Benchmark 3.80%
Housing New Zealand	8.93	A	31.91	
Westpac New Zealand	8.27			
Cooperative Rabo U.A.	7.31			

Market Commentary

The RBNZ delivered on expectations with a 50bps cut taking the OCR to 3.75%. This move was strongly telegraphed in their November statement and press conference and almost universally expected by market pundits. The OCR track and statements from Governor Orr guide for continued cuts albeit at a slower pace. Central expectations are for 25bps cuts in April and May with the end point of the easing cycle seen at 3.1%, much unchanged in practical terms from November's forecast of 3.06%. Overall, the statement solidly delivered on expectations, as such market reactions were minimal.

Looking to the details we observe a Reserve Bank increasingly confident that they have inflation under control. Key messages included, that the economy had significant spare productive capacity which will help keep domestic inflation in check as growth returns. That economic growth will recover over the coming year with lower interest rates supporting household consumption and business investment. Further the statement observed high prices for some of New Zealand's key export commodities and a lower exchange rate will see increased export revenues.

The statement also discussed potential impacts of trade barriers and tariffs. It noted as a small open economy New Zealand will not be able to avoid impacts and that trade barriers are likely to reduce economic activity in New Zealand and weaken global growth. However, how this reduced economic growth feeds through to inflation is highly complex and uncertain. At a high level on one hand tariffs increase prices paid by consumers and business in the tariff imposing country whilst conversely, they may reduce global growth and see trade diversification towards non-tariffed countries (such as New Zealand) or lower tariffed countries, both of which could have a downward impact on inflation. Further to this the committee noted that trade disruptions from tariffs will take some time to transmit through the global economy and as such the committee with have time to react once effects on medium term inflation pressures are apparent.

Fund Commentary

The fund performed well in February returning 0.36% outperforming its benchmark the 90-day Bank Bill Index which returned 0.32%.

The Reserve Bank's MPS strongly delivered on expectations, reducing the cash rate by 50bps (to 3.75%) while maintaining a continued easing bias albeit at a more moderate pace. Consequently, market reactions were minimal, 90-day bills fell 17bps to 3.755%, 6-month bills fell 15.5bps to 3.58% and 1-year swap fell 9.1bps to 3.40%, all these moves highly consistent with the accrual of expected OCR cuts. Somewhat surprisingly the Reserve Bank has continued to provide explicit guidance for future OCR decisions in its post statement press conference with cuts of 25bps at both April and May their central expectation. Markets have taken this to heart and fully priced these which will take the OCR to 3.25% by the middle of the year. With forecast cuts and market pricing highly consistent we have been pursuing a more neutral duration stance. This notwithstanding once the OCR has reached 3.25% future moves will become more uncertain, we expect one should start thinking about how long the OCR is held at low levels rather than how low it ultimately goes. When this thought process develops in the wider market we may see interest rates for longer terms start to increase. Whilst we ultimately expect these increases to be delivered upon, we believe their occurrence may be more delayed than markets price. As such there may be opportunities as the year develops to add duration.

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: \$1,374.4m
Retail: Calendar quarter		
KiwiSaver: Does not distribute		
Estimated annual fund changes (incl. GST)	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%
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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