

Nikko AM NZ Cash Strategy

Monthly Update 31 March 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

- Fourth quarter GDP came in stronger than expected at +0.7% QoQ vs market expectations of +0.4%.
- Markets are pricing an endpoint of 3-3.25% for the OCR easing cycle.
- Short term interest rates continue to adjust downwards with markets seeing 25bps cuts to the OCR as a lock for both April and May. Rates at a 1-year term are more anchored as their focus is more on the end point of the easing cycle rather than its progression.

Fund Highlights

- The fund holds a longer than benchmark duration position reflecting our view that a prolonged easing cycle has started.
- With the end of the easing cycle in sight we expect to see a return to a more upward sloping yield curve for terms 90 days out to 1 year. We are increasingly disposed to taking on duration positions as certainty around this curve shape builds.
- Credit quality remains high and is expected to perform well in the face of a recession.

Performance

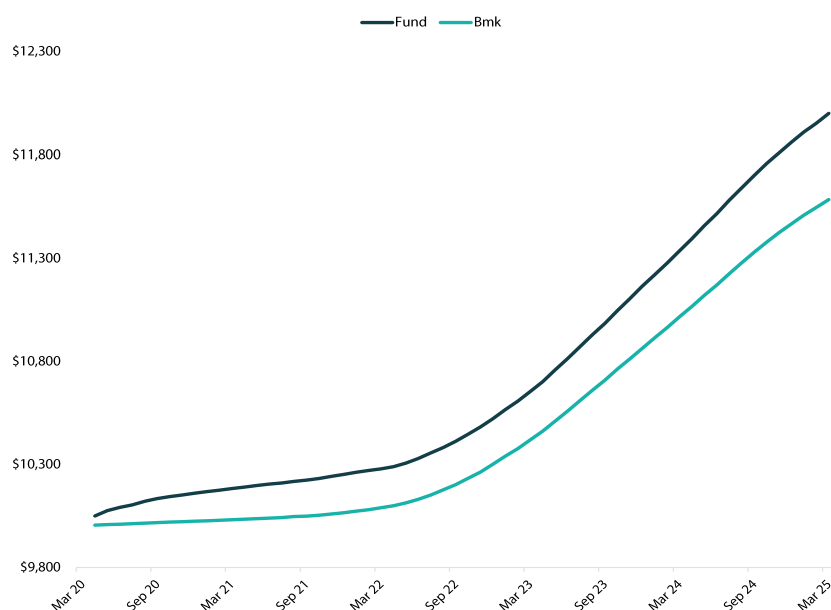
| | One month | Three months | One year | Three years (p.a.) | Five years (p.a.) | Ten years (p.a.) |
|------------------------------|-----------|--------------|----------|--------------------|-------------------|------------------|
| Wholesale¹ | 0.39% | 1.18% | 5.87% | 5.30% | 3.71% | 3.34% |
| Benchmark² | 0.33% | 1.03% | 5.16% | 4.71% | 2.98% | 2.58% |
| Retail³ | 0.37% | 1.10% | 5.61% | 4.99% | 3.41% | 3.00% |
| KiwiSaver³ | 0.35% | 1.06% | 5.52% | 4.89% | 3.30% | |

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, Senior Fixed Income Manager.

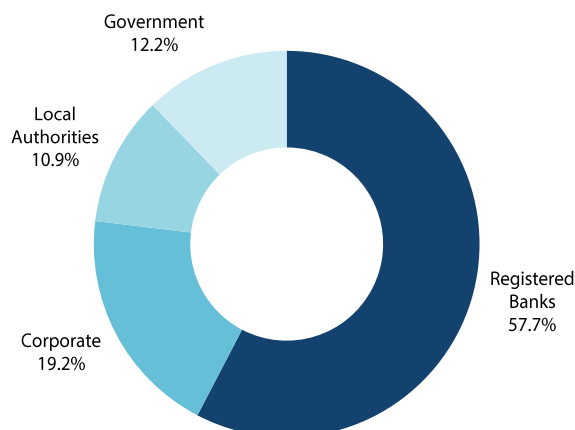
Overview

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.

Sector Allocation



| Top 5 Issuers | (%) | Credit Rating | (%) | Duration |
|-----------------------|-------|---------------|-------|--|
| Westpac New Zealand | 10.07 | AAA | 23.13 | Fund 86 days vs Benchmark 45 days |
| Housing New Zealand | 8.94 | AA | 39.12 | Portfolio Yield (YTM with FRN yield to next reset date) |
| Cooperative Rabo U.A. | 8.86 | A | 37.03 | Fund (gross) 4.33% vs Benchmark 3.67% |
| ASB Bank | 7.03 | | | |
| NZ Tax Trading Co | 6.69 | | | |

Market Commentary

New Zealand's economy expanded by 0.7% over the fourth quarter of 2024 - a rate of growth above both market expectations (+0.4%) and the RBNZ's February monetary policy statement (MPS) forecast (+0.3%). Strength notwithstanding, caution is needed in reading too much positivity into this outturn - for context this gain comes after a 2.2% fall in GDP over the prior two quarters. As such we view this beat more as the economy bouncing off the bottom rather than indicative of a resounding return to growth. All in all, we don't see any major consequences for the RBNZ's near term monetary policy decisions.

Consistent with this more muted interpretation of a return to growth was Westpac's consumer confidence index which fell 8 points in March to sit at 89.2 indicating pessimism remains stronger than optimism for consumers. This story was echoed by ANZ's consumer confidence survey which had a fall of 4 points taking its level to 93.2 for March also in pessimistic territory. Despite these downwards shift in confidence we should observe both these indices are well off their lows of 75.6 for Westpac's survey and 73.8 for ANZ's so in a longer-term context show a gradual improvement in sentiment.

The RBNZ's OCR review on the 9th of April was a shorter form "monetary policy review" and the first decision made without Adrian Orr as governor. Our expectations and that of the wider market remain firmly for a continuation of cuts as foreshadowed in February's MPS - and this was delivered (cutting by 25bps to 3.5%). We view a deviation from February's MPS guidance as having a high hurdle absent a meaningful change in economic data (which we have not seen). We note the MPR is occurring with an interim governor in place and given no meaningful changes in data this further increases the probability of following February's MPS script so as to leave any deviation to a future permanent governor once appointed.

Fund Commentary

The fund performed well in the March quarter returning 1.18% outperforming its benchmark the 90-day Bank Bill Index which returned 1.03%.

Over the quarter the RBNZ delivered its first Monetary Policy statement of 2025 where it 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. 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 priced a high probability of these cuts occurring.

With this backdrop markets reviewed a surprising strong fourth quarter GDP outturn in March, which came in at +0.7% above both market +0.4% and RBNZ +0.3% expectations. Whilst this is positive, when viewed in the context of GDP having fallen 2.2% over the preceding two quarters it looks more muted. We expect the RBNZ to look through this surprise as one data point does not make a trend, and inflation and sentiment indicators remain subdued. With nothing further to upset the RBNZ's guidance of continued OCR cuts short term interest rates continued to move lower reflecting the accrual of expected cuts. 90-day bills fell 15.7bps to 3.598%, 6-month bills fell 9bps to 3.49% and 1-year swap fell 5.4bps to 3.351%.

As we enter April the short-term interest rate curve remains inverted from 90-days to 1-year, however we expect a return to a more normal upward sloping curve as the end of the easing cycle nears. Our attention now firmly turns to how long the OCR will remain at its lows. Historically this period has been around a year from the end of an easing cycle. Consistent with this we have been actively pursuing opportunities to extend duration.

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: \$1,376.8m Buy / Sell spread: 0.00% / 0.00% |
|---|--|---|

Compliance

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

Contact Us

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