

Factsheet 31 July 2023

# NIKKOAM NZ CASH STRATEGY

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

- As widely expected, the Reserve Bank (RB) left the OCR on hold at 5.5%.
- The RB reiterated that the OCR needs to remain at restrictive levels for some time to get inflation down.
- Second quarter CPI came in higher than expected at 1.1%, with non-tradable inflation sticky.

## Fund Highlights

- The fund holds a longer than benchmark duration position reflecting a view that the RB's hiking cycle is complete.
- We are looking to opportunistically add duration reflecting a view that the next move in the cash rate is more likely to be down than up.
- Credit quality remains very solid and is expected to perform well in the face of a recession.

## Performance

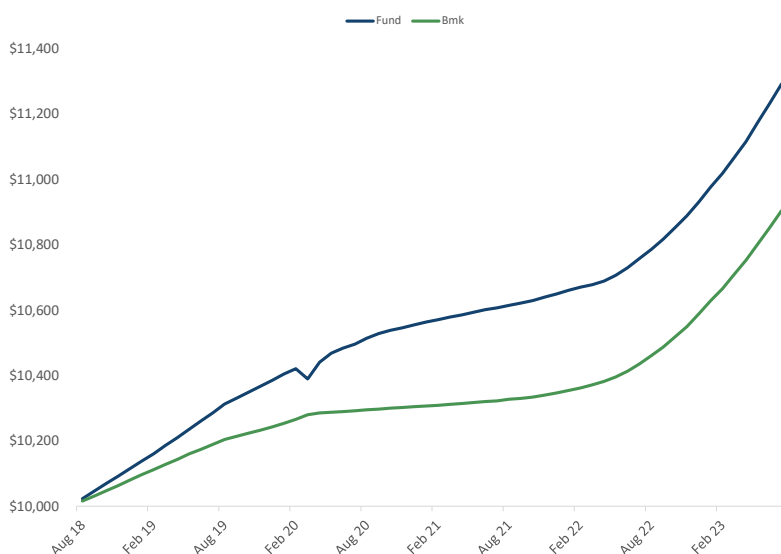
	One month	Three months	One year	Three years (p.a)	Five years (p.a)	Ten years (p.a)
Wholesale <sup>1</sup>	0.53%	1.59%	4.97%	2.47%	2.46%	3.02%
Benchmark <sup>2</sup>	0.48%	1.41%	4.50%	1.95%	1.75%	2.22%
Retail <sup>3</sup>	0.51%	1.53%	4.68%	2.17%	2.13%	
KiwiSaver <sup>3</sup>	0.51%	1.49%	4.51%	2.02%	2.12%	

1. Returns are before tax and before the deduction of fees.

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<sup>1, 2</sup>



## 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, Fixed Income Manager and Matthew Johnson, Fixed Income Manager.

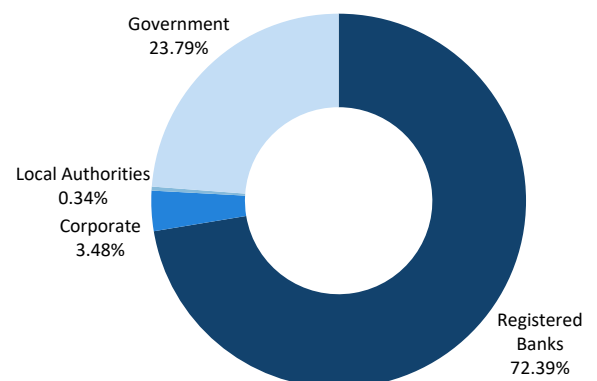
## Overview

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.

## Asset Allocation



Top 5 Issuers	(%)	Credit Quality	(%)	Duration
Westpac New Zealand	15.78	AAA	24.14	Fund 113 days vs Benchmark 45 days
Tax Management NZ	13.07	AA	36.45	
NZ Tax Trading Co	10.72	A	39.41	
ANZ Bank New Zealand	9.90			<b>Yield to Maturity</b>
Cooperatieve Rabo U.A.	6.17			Fund (gross) 6.08% vs Benchmark 5.62%

## Market Commentary

As widely expected, the Reserve Bank left the OCR on hold at 5.5% in its July Monetary Policy Review (MPR). Statements from the bank were very consistent with the pause it telegraphed back in May – policy has entered a stage of data watching vis-à-vis continued OCR action. The key message of the statement was the OCR would need to “remain at a restrictive level for the foreseeable future” to “ensure consumer price inflation returns to its target range”.

In respect to data watching, the most keenly anticipated release of the month was second quarter CPI which came in at 1.1% for the quarter taking annual inflation to 6.0%. This print was higher than market expectations of 5.9% y/y but slightly below the RB’s May MPS forecast of 6.1%. At face value this looks positive from the RB’s standpoint, however, on closer examination we see the decline was predominantly driven by “tradables” whilst unfortunately “non-tradables” remained sticky.

“Non-tradables” came in at 6.6% down slightly from the 6.8% level of Q1 yet meaningfully higher than the RB’s May forecast of 6.3%. This source of inflation is the portion on which the RB has most influence and continues to show challenges. Non-tradable inflation has now flatlined over the past four quarters having ranged between 6.6% and 6.8%. We view this result as affirming the RB’s statement that the OCR needs to remain “restrictive for the foreseeable future” rather than being an indicator of an immediate resumption of OCR hikes. Further, in this respect, one should not expect OCR cuts in the near term and should markets move to price cuts too soon this would be miss read absent the data meaningfully changing. It is important to note that the MPR specifically calls out lag indicating the RB is very aware that further tightening will occur without a resumption of OCR hikes. This does not mean the RB will have limitless patience, rather, it will be watching data and is aware labour shortages have eased, domestic economic growth has stalled, global economic growth is below trend, supply chains have eased, and that monetary policy lag will continue to meaningfully build over the remainder of 2023. Ultimately this should lead to reduced inflation by 2024.

## Fund Commentary

The fund performed well in July returning 0.53% outperforming its benchmark the 90-day Bank Bill Index which returned 0.48%. The RB confirmed the OCR is now on hold and that monetary policy has entered a data watching phase. In response markets reduced bets that further near-term hikes would occur, and 90-day bills dropped 4bps to end the month at 5.665%, this being the first monthly drop since the hiking cycle started. At the longer end of the cash spectrum 1-year rates ended the month much unchanged at 5.825%. The positive slope between 90-days and 1-year continues to offer opportunities to run a long duration position. The fund’s strategy continues to consist of adding in this part of the curve with our key thesis being the hiking cycle is over and these elevated rates will ultimately fall as data turns over the coming 6 to 12 months.

## Key Fund Facts

Distributions	Estimated annual fund charges (incl. GST)		
Wholesale fund: Calendar quarter	Wholesale: Negotiated outside of unit price		
Retail fund: Calendar quarter	Retail: 0.30%, refer PDS for more details		
KiwiSaver fund: Does not distribute	KiwiSaver: 0.30%, refer PDS for more details		
Hedging	Buy / Sell spread	Strategy size	Strategy Launch
All investments will be in New Zealand dollars	0.00% / 0.00	\$849.4m	October 2007
<b>Exclusions:</b> Controversial weapons.			
<b>Restrictions:</b> Adult entertainment, gambling, fossil fuels, alcohol stocks, tobacco stocks. For more information please refer to the Statement of Investment Policy and Objectives (SIPO) which can be found on our website <a href="https://www.nikkoam.co.nz/invest/retail">https://www.nikkoam.co.nz/invest/retail</a> .			

## Compliance

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

## Contact Us

[www.nikkoam.co.nz](http://www.nikkoam.co.nz) | [nzenquiries@nikkoam.com](mailto:nzenquiries@nikkoam.com)

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