

Nikko AM NZ Cash Strategy

Monthly Update 31 October 2023

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

- The month kicked off with the RBNZ remaining resolutely on hold at 5.5% with the committee noting “demand growth continues to ease broadly as expected”.
- Third quarter CPI came in at 1.8%, lower than market consensus of 1.9% but most importantly lower than the RBNZ’s pick of 2.1%.
- The quarterly survey of business opinion suggests labour is increasingly available and capacity constraints are not an issue.

Fund Highlights

- The fund holds a longer than benchmark duration position reflecting a view that the RBNZ’s hiking cycle is complete.
- We are looking to maintain the fund’s long duration and add to it reflecting our view the next move in the cash rate is more likely to be down than up.
- 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	0.56%	1.60%	5.72%	2.87%	2.65%	3.08%
Benchmark²	0.49%	1.43%	5.16%	2.41%	1.94%	2.30%
Retail³	0.55%	1.54%	5.41%	2.58%	2.32%	
KiwiSaver³	0.55%	1.53%	5.28%	2.45%	2.28%	

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).

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.

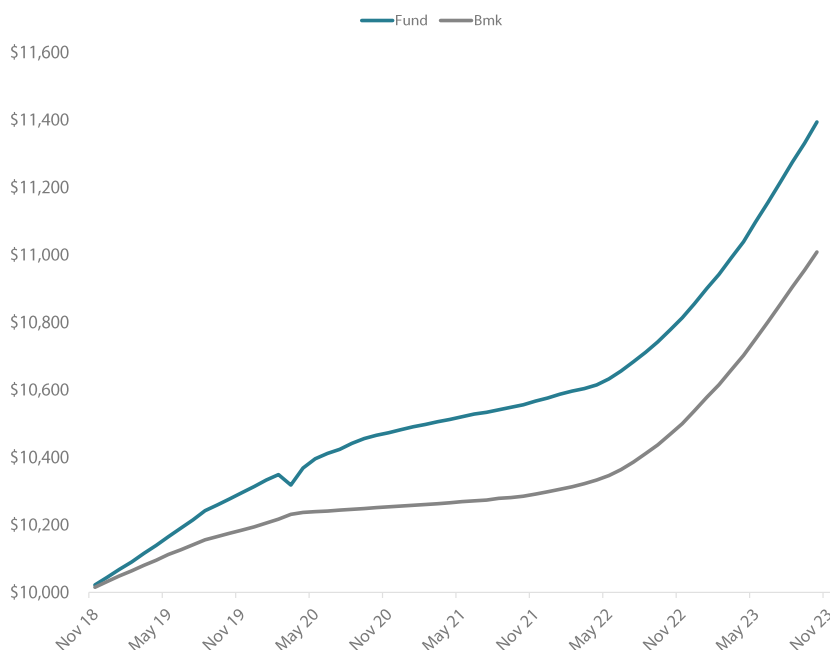
Overview

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

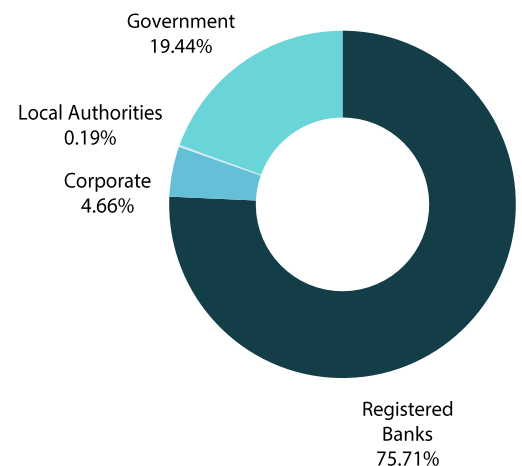
Objective

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

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



Sector Allocation



Top 5 Issuers	(%)	Credit Rating	(%)	Duration
Westpac New Zealand	14.75	AAA	19.4	Fund 122 days vs Benchmark 45 days
Tax Management NZ	12.10	AA	39.5	Yield to Maturity Fund (gross) 6.19% vs Benchmark 5.6%
ASB Bank	7.83	A	41.1	
NZ Tax Trading Co	7.33			
ANZ Bank New Zealand	6.95			

Market Commentary

The month kicked off with the Reserve Bank remaining resolutely on hold with the committee noting “demand growth continues to ease broadly as expected”. This decision was generally in line with market expectations, albeit some bank economists continue to hold more hawkish views. These bank economists’ hawkish views are based on New Zealand’s stronger-than-expected GDP growth, stubbornly resilient domestic inflation, and concerns regarding impacts of elevated oil prices. These are all very valid, however each passing meeting that the Reserve Bank remains on hold in face of this mixed data, increasingly affirms they are willing to look through this strength believing they have done enough to let monetary policy lag play out.

In respect to the points of strength there are mitigating factors in each case. GDP has been strong, but this has largely been driven by record net inward migration, on a per capita basis GDP has been declining. Domestic inflation has been resilient, however rises here often reflect what has happened rather than what will happen over the coming year. There are a multitude of forces that suggest elevated domestic inflation will dissipate – amongst others, the quarterly survey of business opinion suggests labour is increasingly available, record net inward migration continues to add to the labour pool, we have an incoming government that will be less disposed to ongoing spending increases, and we have a consumer that is increasingly under pressure from rising interest rates. As to oil prices being a concern, this is entirely valid, both primary and secondary inflation forces can accrue, yet we must remember oil is a globally priced commodity- our Reserve Bank’s actions have little to no impact on this portion of inflation.

Considering this in aggregate, we agree with the Reserve Bank’s decision to remain on hold. Our house view is that the portion of weaker data is growing whilst positive surprises are declining. We have also seen banks continue to increase mortgage rates despite the OCR remaining unchanged – in essence this is an OCR rise by proxy. We expect lag to build over the coming months and that the data will increasingly roll over as time passes.

Fund Commentary

The fund performed well in October returning 0.56% outperforming its benchmark the 90-day Bank Bill Index which returned 0.49%. In response to the Reserve Bank’s on hold decision along with a softer-than-expected CPI print interest rates fell across the bills and swap curves for all tenors less than 3 years. 90-day bills dropped 10bps to 5.64% and 1-year swap dropped 16bps to 5.76%. With interest rates falling, the fund’s long duration position strongly added to performance. It increasingly looks as if the Reserve Bank is willing to look through data points of strength placing more credence on signs of weakness and is willing to “watch, wait and worry”, letting monetary policy lag play out. With this backdrop a long duration position will remain logical in the coming months.

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: \$923.8m
Retail: Calendar quarter	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%
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: 0.30%, refer PDS for more details		

Compliance

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

Contact Us

www.nikkoam.co.nz | nzenquiries@nikkoam.com

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