

Nikko AM NZ Cash Strategy

Monthly Update 30 November 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 Reserve Bank left the OCR unchanged, however showed increasing concern around upside risks.
- Inflation persistence was highlighted with the statement noting it has been above target “for some time” and there should be “a low tolerance” for any “increase in the time” to return to target.
- The MPS pushed back against markets pricing cuts, reiterating the OCR needs to remain elevated for a “sustained” period and explicitly stating they are “willing to tighten further”.

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	0.53%	1.59%	5.93%	3.03%	2.71%	3.10%
Benchmark²	0.46%	1.41%	5.33%	2.55%	2.00%	2.32%
Retail³	0.50%	1.52%	5.62%	2.73%	2.39%	
KiwiSaver³	0.51%	1.52%	5.51%	2.61%	2.34%	

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

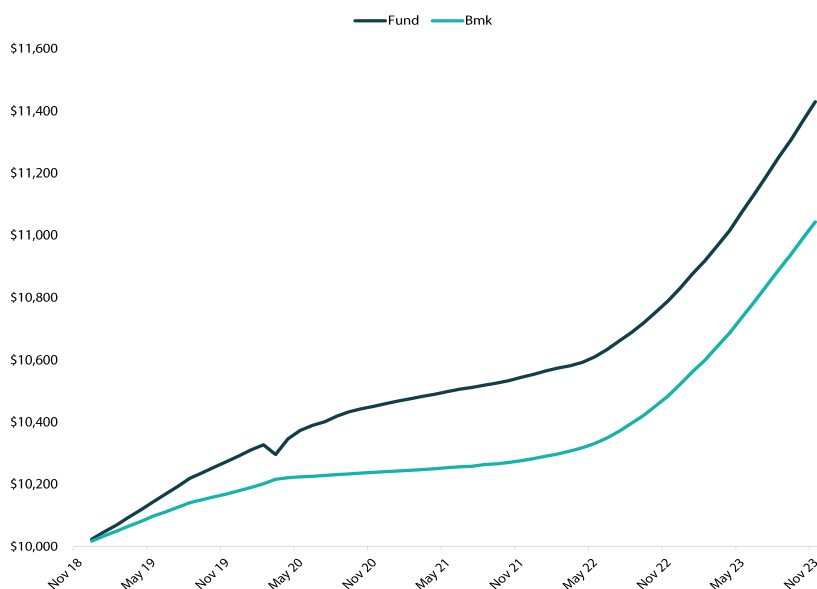
Overview

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

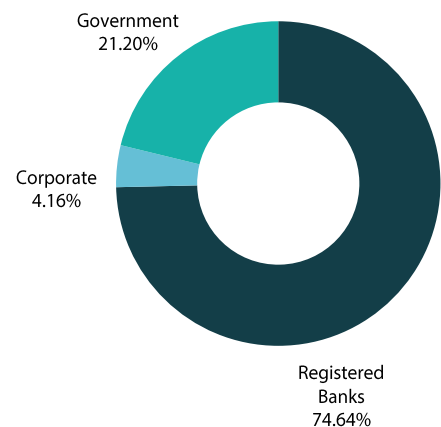
Objective

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
Tax Management NZ	13.24	AAA	21.20	Fund 122 days vs Benchmark 45 days
Westpac New Zealand	12.51	AA	33.08	Yield to Maturity
Kiwibank	8.63	A	45.72	Fund (gross) 6.06% vs Benchmark 5.58%
NZ Tax Trading Co	7.95			
ANZ Bank New Zealand	7.54			

Market Commentary

In their final meeting of the year, as universally expected, the Reserve Bank (RB) left the OCR unchanged. However, against market expectations, their statement and rhetoric surprised with a decidedly hawkish tilt. The stern tone was in response to the continued surge in migration. The RB has previously argued that migrants ease capacity constraints and dampen wage pressure, yet it is also understood that a growing population boosts demand. This system is now unbalanced, the impact of rising consumption is outweighing the inflation suppressing benefits of increased labour availability creating asymmetric risk to the upside for inflation.

November's Monetary Policy Statement also highlighted increasing concerns about inflation persistence. Although headline inflation has begun to show a clear downward trajectory, in large this has been attributable to falling imported inflation, whilst domestic inflation is more of a slow-moving beast. The RB is increasingly concerned inflation expectations are becoming de-anchored. CPI inflation has been above target since mid-2021 and is forecast to remain above 3% for another 12 months. In this regard, it made several strongly worded statements. Most notably the bank stated: (1) it has "a low tolerance" for any "increase in the time" to return to target, (2) that the OCR needs to remain elevated for a "sustained" period and (3) that they are "willing to tighten further".

Whilst one should always take the RB at its word, this rhetoric has a strong element of jawboning – the RB is pushing back against markets prematurely pricing cuts. This aside economic data are turning, unemployment is rising, growth is slowing both domestically and for our key trading partners, the lagged impacts of past hikes are building, and inflation is slowing albeit slower than the RB desires. With the next OCR meeting not scheduled until the end of February there is now an extended period for these factors to impact inflation before the OCRs next review.

Fund Commentary

The fund performed well in November returning 0.53% outperforming its benchmark the 90-day Bank Bill Index which returned 0.46%. As universally expected, the Reserve Bank kept the OCR on hold in its last meeting of 2023, however surprised with a stern hawkish tone. The bank reminded markets the OCR needs to remain elevated for an extended period and that it is willing to tighten further. Markets somewhat looked through this stern rhetoric continuing to view the OCR as sufficient to get inflation under control, albeit in a nod to this hawkishness reducing pricing for near term cuts in the first half of 2024. With this backdrop the fund's long duration position positively contributed to returns with 1-year swap falling 18bps to 5.58%, whilst 90-day bill only fell 1.5bps to 5.625%. As we move into 2024 we expect economic data to continue to soften, however duration positions will need to be carefully considered with the 90-day bills to 1-year swap curve inverting for the first time since early May.

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: \$855.2m
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: 0.30%, 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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