

Nikko AM NZ Cash Strategy

Monthly Update 31 March 2024

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

- Fourth quarter GDP disappointed at -0.1% against market expectations of +0.1%, resulting in the NZ economy re-entering a technical recession.
- NZ Treasury provided a gloomy update, forecasting GDP over the period 2024-28 to be \$42.8 billion lower than previously forecast, and government tax revenue to be \$13.9 billion lower.
- 90-day bills remained range bound waiting on the RBNZ's April meeting for direction, whilst 1-year swap fell in response to ongoing poor economic data.

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 a long duration position; however, this may be tempered should markets price cuts at a too rapid pace.
- 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%	1.54%	6.40%	3.64%	2.94%	3.19%
Benchmark²	0.48%	1.41%	5.72%	3.17%	2.25%	2.42%
Retail³	0.46%	1.46%	6.03%	3.32%	2.62%	
KiwiSaver³	0.45%	1.45%	5.98%	3.21%	2.55%	

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, Fixed Income Manager.

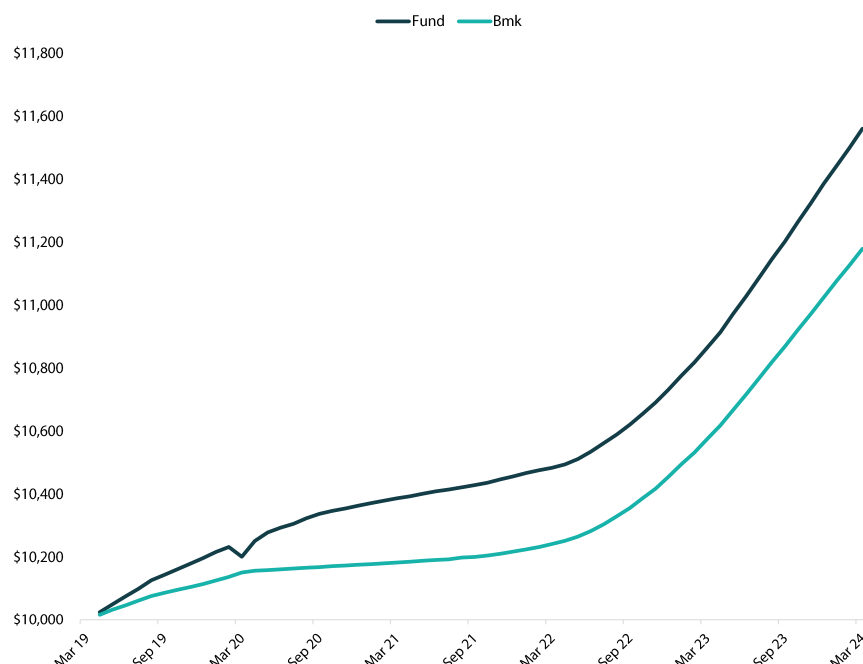
Overview

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

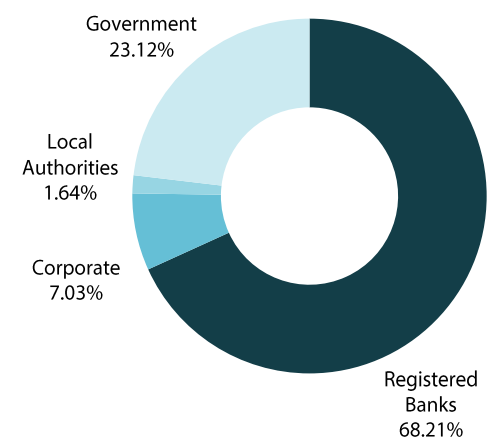
Objective

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	13.77	AAA	23.12	Fund 99 days vs Benchmark 45 days
Westpac New Zealand	11.93	AA	30.51	Yield to Maturity
NZ Tax Trading Co	9.35	A	46.37	Fund (gross) 5.93% vs Benchmark 5.59%
Kiwibank	8.53			
ASB Bank	7.38			

Market Commentary

With no Reserve Bank meeting occurring in the month, 90-day bank bills entered a holding pattern ranging between 5.635% and 5.655% waiting on the RBNZ to provide near term direction at their April 10 meeting. Conversely 1-year swap rates progressively declined over the month falling from 5.49% to 5.30% as domestic data releases and events were universally gloomy.

Key among this gloomy data was fourth quarter GDP that disappointed at -0.1% against market expectations of +0.1%. New Zealand's economy has now shrunk by a cumulative ~0.7% since its peak level in September 2022, this occurring despite a period of very strong inward net migration and population growth. Since September 2022, New Zealand's population has grown by some 3.4%, if we adjust GDP for this growth, on a per capita basis GDP is down a very unflattering 3.9%. In short, GDP numbers paint a very bleak picture, affirming monetary policy is having a real impact on consumption.

This narrative of a weak economic environment was continued in updates from New Zealand's Treasury and in comments from the government's finance minister, Nicola Willis. NZ Treasury provided a sobering update, forecasting GDP over the period 2024-28 to be \$42.8 billion lower than previously forecast, and government tax revenue to be \$13.9 billion lower. NZ Treasury's guidance was then echoed by Nicola Willis in her budget policy statement at the end of the month where she conceded the government would not get its books back into surplus by 26/27 and that a surplus by 27/28 was "achievable but not a given".

The Reserve Bank has previously looked through weak economic data, instead preferring to keep a razor focus on taming inflation, however the set of poor data continues to build.

The Reserve Bank's April 10 meeting is imminent and whilst consensus expectations are for little change in their statements and stance, markets will be highly attuned to any hints that Reserve Bank's focus is becoming more balanced in respect to economic data. Any change here will provide direction to 90-day bills over the coming months.

Fund Commentary

The fund performed well in the quarter to March returning 1.54%, outperforming its benchmark the 90-day Bank Bill Index that returned 1.41%. Over the quarter 90-day bills were unchanged, starting the year at 5.635% and ending March at the same level. There was however a period of volatility in the lead up to February's Monetary policy Statement, where ANZ's economic team erroneously called for the OCR to be increased towards 6% which resulted in 90-day bills briefly rising as high as 5.75% and 1-year swap as high as 5.72%. The fund responded to these moves in February by increasing duration, as this move up in rates was contrary to our central view that no further OCR increases will be required, which proved to be a sound call.

More latterly in March 90-day bills have been rangebound trading in a 2-basis point range waiting on the Reserve Bank's April meeting for future direction. Conversely, interest rates for longer bills have continued to decline in sympathy with ongoing weak economic data; over March 6-month bills declined 7bps to end 5.57% whilst 1-year swap declined 19bps to end 5.30%. With the bills swap curve now increasingly inverted we let duration roll down over March, preferring to wait to see if the Reserve Bank's inflation taming resolve is tempered in their April statement. Nevertheless, maintaining a structurally long duration position is appropriate in the current environment, however market pricing (of cuts) and the Reserve Bank's track currently meaningfully differ. We expect to carefully add duration pending pricing and clarity on the Reserve Bank's stance.

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: 0.30%, 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: \$892.7m Buy / Sell spread: 0.00% / 0.00%
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Compliance

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

Contact Us

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