Factsheet 30 April 2023

NIKKO AM 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

- The Reserve bank surprised markets by continuing to hike at pace, increasing the OCR by 50 bps to 5.25%.
- 1Q23 CPI came in lower than expected at 6.7% for the year, the decline driven by tradables.
- Non-tradable (domestic inflation) unfortunately continues to be a challenge, with 1Q23 accelerating to a new high of 6.8% for the year.

Fund Highlights

- The fund holds a longer than benchmark duration position reflecting a view that cash rates will peak in 2023.
- The RBNZ's hiking cycle is well progressed and likely entering its latter stages. We are looking for opportunities to add to fund duration reflecting the lateness of the tightening cycle.
- The fund's shorter duration positions are targeted around the nearest two OCR meeting dates, allowing for rapid reinvestment on decisions and any potential pivots.

Performance

	One month	Three months	One year	Three years (p.a)	Five years (p.a)	Ten years (p.a)
Wholesale[1]	0.44%	1.27%	4.00%	2.11%	2.28%	2.95%
Benchmark[2]	0.40%	1.17%	3.58%	1.49%	1.57%	2.15%
Retail[3]	0.38%	1.17%	3.67%	1.81%	1.95%	
KiwiSaver[3]	0.38%	1.14%	3.53%	1.67%	1.96%	

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.

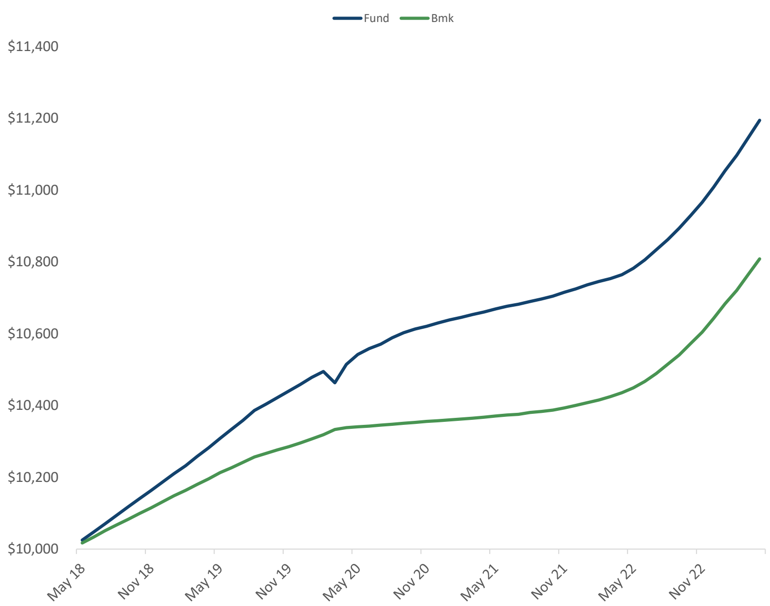
Overview

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

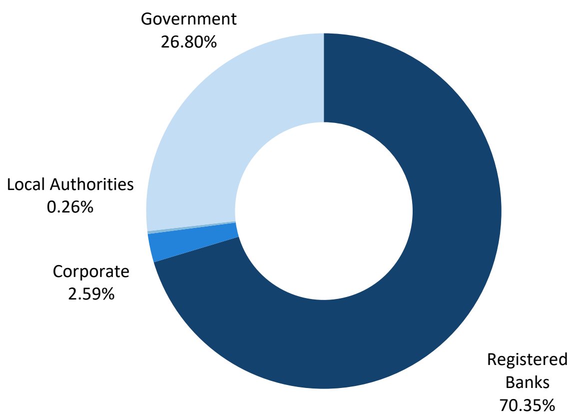
Objective

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]



Asset Allocation



Top 5 Issuers	(%)
NZ Tax Trading Co	14.08
Tax Management NZ Limited	12.73
ANZ Bank New Zealand	11.39
Industrial & Commercial Bank of China	7.49
Bank of China NZ	7.34

Credit Quality	(%)
AAA	26.8
AA	32.3
A	40.9

Duration
Fund 76 days vs Benchmark 45 days

Yield to Maturity
Fund (gross) 5.57% vs Benchmark 5.44%

Market Commentary

April kicked off with the RBNZ conducting a Monetary Policy Review meeting, where they continued to hike at pace, increasing the OCR by 50bps to 5.25%. This move caught markets by surprise with a 25bps hike universally expected. Arguments have been made that the RBNZ is beginning to gain traction, that economic growth is slowing and due to lag, a more patient approach to OCR reviews could be warranted. This clearly doesn't currently gel with the RBNZ's view, as they continue to be resolute in their desire to bring down inflation even if economic conditions soften. Simply put they see inflation as the bigger evil.

The Reserve Bank's moves from here become nuanced, with communication of increasing importance – for this reason we view a more detailed Monetary Policy Statement meeting as logical for any move to a pivot. Purely from a political standpoint there are challenges to the RBNZ pausing its hiking cycle whilst CPI is so far from its target band and yet to meaningfully trend downwards. In the latter part of April, the RBNZ received supportive data in this area with 1Q23 CPI now suggesting a downward trend. CPI came in at 6.7% for the year to March, below market expectations of 6.9% and a meaningful drop from its 7.2% to 7.3% range seen in the last three prints. The decline in inflation was driven by a drop in Tradable inflation, which fell a robust 1.8% from 8.2% to 6.4%, indicating that offshore supply constraints are reversing, and the worst may be behind us in this area. Unfortunately, Non-Tradable (domestic inflation) continues to show challenges, with this portion of inflation increasing to a new high of 6.8%.

Looking to the months ahead we increasingly expect Tradable inflation to continue to slow. This will likely give the RBNZ the breathing room to pause its hiking cycle either with a final increase of 0.25% or hard stop. This does not however mean that cuts are imminent. Getting inflation down from circa 7% to something in the 4s will be driven by offshore supply factors which the RBNZ has little to no influence on. Taking the next step from the 4s back down into the RBNZ's 1-3% target band is a much harder task. Domestic inflation accounts for some 60% of headline CPI and continues to run hot – for cuts to be considered the RBNZ will need to see the labour market soften, unemployment likely rise and wage growth slow. This will ultimately happen; however, we see markets as getting ahead of themselves in pricing cuts in 2023 with data and conditions as they stand today. Hot and sticky domestic inflation means it's a slow journey for overall inflation to return to its 1-3% target.

Fund Commentary

The fund performed well in April returning 0.44% outperforming its benchmark the 90-day bank bill index which returned 0.40%. With the RBNZ unexpectedly hiking the OCR by 50bps, whilst the market universally expected and priced a 25bps bump, the fund's long duration positions were a headwind to performance. On the contra, our strategy of weighting maturities around the nearest OCR dates functioned as planned, providing a level of offsetting protection to this unexpected action. Over the month 90-day bills increased by 33.5bps to 5.56%, whilst 1-year swap increased 25bps to 5.59%. The curve is now remarkably flat with little additional yield on offer in the bills curve for tenor. With this curve shape, adding duration becomes more about picking up credit curve slope and positioning for eventual cuts. As mentioned in our market commentary although its feasible the end of the hiking cycle is imminent, this does not mean an immediate pivot to cuts - hot and sticky domestic inflation may mean it's a slow journey back to the RBNZ target band of 1-3%. In this environment the fund will be positively disposed to adding longer duration positions but will take a patient approach. We will look to opportunistically add should markets price an OCR meaningfully above the RBNZ's current peak forecast of 5.5% and take near term cuts off the table or if data begins to suggest softness in the labour market.

Key Fund Facts

Distributions

Wholesale fund:	Calendar quarter
Retail fund:	Calendar quarter
KiwiSaver fund:	Does not distribute

Estimated annual fund charges (incl. GST)

Wholesale:	Negotiated outside of unit price
Retail:	0.30%, refer PDS for more details
KiwiSaver:	0.45%, 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	$778.6m	October 2007

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) which can be found on our website https://www.nikkoam.co.nz/invest/retail.

Compliance

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

Contact Us

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