

Factsheet 31 August 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 of New Zealand (RBNZ) continued to hit the pause button and left the OCR on hold at 5.5%.
- They reiterated that the OCR needs to remain at restrictive levels for some time to get inflation down.
- Inflation remains sticky but economic data continues to weaken.

## 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

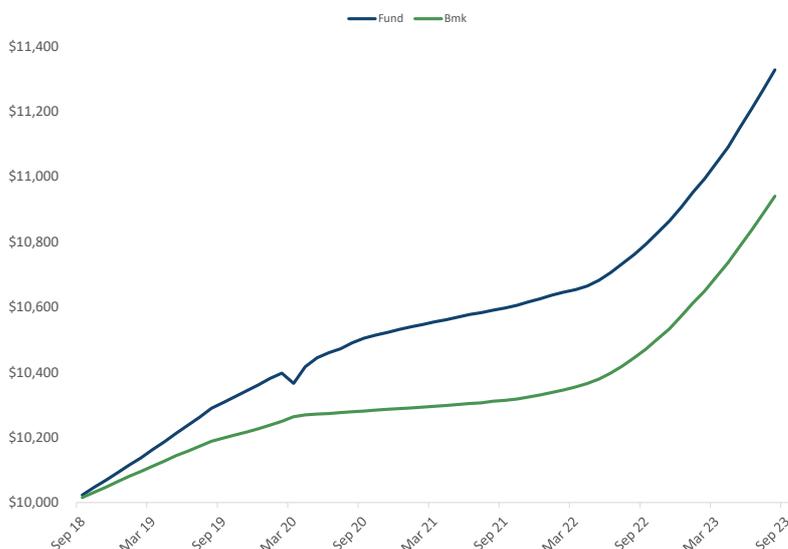
	One month	Three months	One year	Three years (p.a)	Five years (p.a)	Ten years (p.a)
Wholesale <sup>1</sup>	0.54%	1.60%	5.27%	2.59%	2.52%	3.04%
Benchmark <sup>2</sup>	0.48%	1.43%	4.75%	2.10%	1.81%	2.25%
Retail <sup>3</sup>	0.52%	1.52%	4.96%	2.30%	2.20%	
KiwiSaver <sup>3</sup>	0.52%	1.50%	4.81%	2.16%	2.18%	

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

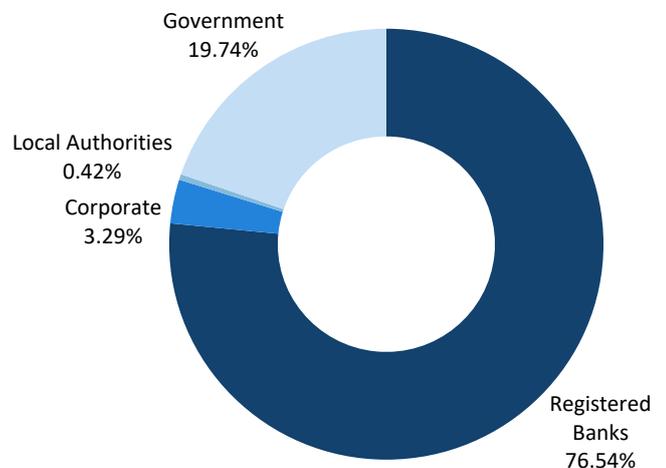
## Overview

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.

## Asset Allocation



Top 5 Issuers	(%)	Credit Quality	(%)	Duration
Westpac New Zealand	16.93	AAA	20.07	Fund 130 days vs Benchmark 45 days
Tax Management NZ	12.55	AA	41.37	
ANZ Bank New Zealand	9.53	A	38.56	
NZ Tax Trading Co	7.19			<b>Yield to Maturity</b>
Hongkong and Shanghai Banking	6.67			Fund (gross) 6.07% vs Benchmark 5.60%

## Market Commentary

As widely expected, the Reserve Bank left the OCR on hold at 5.5% in its August Monetary Policy Review (MPR). Statements from the bank were very consistent with earlier comments, with the pause in rate rises telegraphed back in May. The RB has entered a stage of data watching and waiting, the key message being the OCR needs to “remain at a restrictive level for the foreseeable future” to “ensure consumer price inflation returns to its 1-3 % target range”.

Economic data releases are biased to the weaker side however the ANZ Business Outlook survey showed business confidence has lifted with all activity indicators lifting however they remain very subdued and retail sales slumped 1% even though population growth via migration has been strong.

The Reserve Bank believes “the current level of interest rates is constraining spending and hence inflation pressure, as anticipated and required”. They observe that whilst the economy is slowing, labour shortages are easing, global growth remains below trend and headline inflation and inflation expectations have declined, measures of core inflation remain too high.

Our concern is that with weak consumer demand, low business confidence, a weak export sector, weakening labour market, tight monetary policy, and a recessionary environment the risks are rapidly rising that the Reserve Bank keeps conditions too tight for too long. If this scenario plays out it will create greater economic pain than is required to get and keep inflation lower. On the positive side, a deeper than needed economic downturn increases the probability that cuts to the OCR occur and that they occur more rapidly and deeper than currently expected by markets.

In the August Monetary Policy, the OCR is projected to be modestly cut by early 2025 and falling to 3.4% by September 2026.

## Fund Commentary

The fund performed well in August returning 0.54% outperforming its benchmark the 90-day Bank Bill Index which returned 0.48%.

The RBNZ is in a holding pattern and monetary policy has entered a data watching phase. High cash rates for longer remain likely unless there is a material change in how the economy and inflation evolve. Markets reduced bets that further near-term hikes would occur, and 90-day bills dropped 1.5bps to end the month at 5.65%. At the longer end of the cash spectrum, 1-year rates ended the month 10bps lower at 5.72%. We want to have a higher yield and participate in capital gains. The fund’s strategy continues to consist of investing to lock in higher rates for longer 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

<b>Distributions</b>		<b>Estimated annual fund charges (incl. GST)</b>	
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
<b>Hedging</b>		<b>Buy / Sell spread</b>	<b>Strategy size</b>
All investments will be in New Zealand dollars		0.00% / 0.00	\$886.5m
<b>Strategy Launch</b>			
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

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