

# Nikko AM NZ Cash Strategy

Monthly Update 31 January 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 CPI came in at 4.7% - its lowest level in two and a half years albeit this headline result was driven by tradable inflation, with non-tradable inflation remaining stubbornly high.
- The RBNZ's chief economist, Paul Conway gave an on-the-record speech that pushed back against market expectations of near-term OCR cuts, stating slowing economic growth does not necessarily imply weaker inflation pressure.
- Markets continue to expect OCR cuts, with some 85bps priced to occur in 2024, this slightly pared back from expectations at the end of 2023 where 119bps were priced.

## Fund Highlights

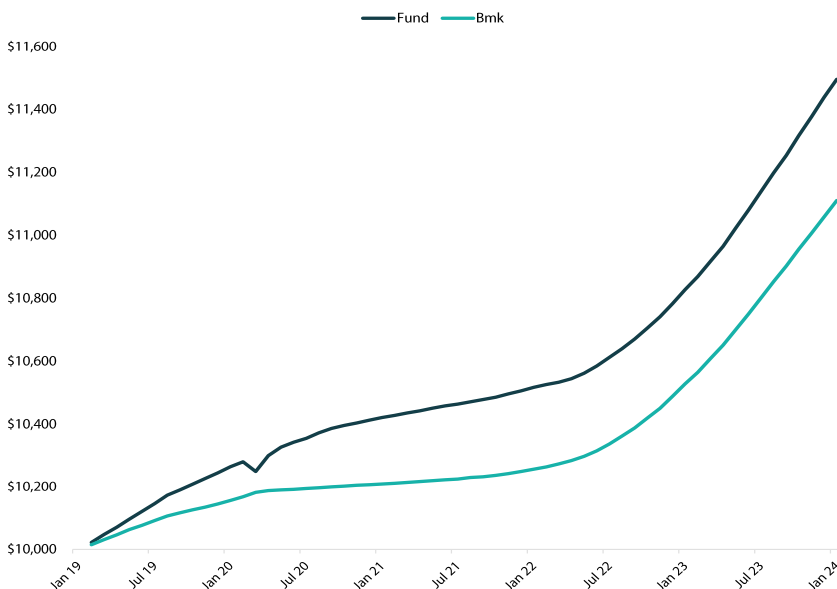
- The fund holds a longer than benchmark duration position reflecting a view that the RBNZ's hiking cycle is complete.
- We are looking to maintain a long duration position; however, this may be tempered should markets price cuts at a too rapid pace.
- Credit quality remains high and is expected to perform 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.)
<b>Wholesale<sup>1</sup></b>	0.50%	1.58%	6.18%	3.33%	2.83%	3.14%
<b>Benchmark<sup>2</sup></b>	0.47%	1.42%	5.55%	2.86%	2.13%	2.37%
<b>Retail<sup>3</sup></b>	0.51%	1.51%	5.87%	3.04%	2.51%	
<b>KiwiSaver<sup>3</sup></b>	0.50%	1.51%	5.79%	2.91%	2.45%	

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).

## 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.

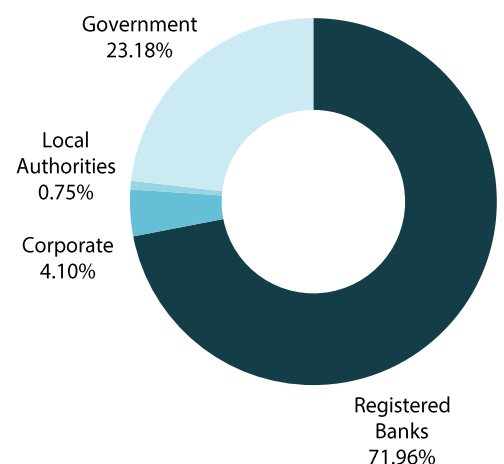
## Overview

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.

## Sector Allocation



Top 5 Issuers	(%)	Credit Rating	(%)	Duration
Tax Management NZ	14.02	AAA	23.18	Fund 98 days vs Benchmark 45 days
Westpac New Zealand	11.37	AA	30.51	<b>Yield to Maturity</b>
Kiwibank	9.58	A	46.31	Fund (gross) 5.9% vs Benchmark 5.61%
NZ Tax Trading Co	9.16			
ASB Bank	7.19			

## Market Commentary

There were two key domestic events in January, the release of fourth quarter CPI on the 24th and a speech by the RBNZ's chief economist, Paul Conway on the 30th. In respect to the former, fourth Quarter CPI came in at 4.7% - its lowest level in two and a half years. Whilst a positive development, the result was not as benign as the RBNZ would have liked or markets may have hoped after December's negative GDP print. This decline in headline CPI was unfortunately almost entirely driven by tradable inflation (-0.2% QoQ), whilst non-tradable inflation came in higher (+1.1% QoQ) than both the markets (+0.8% QoQ) and the RBNZ's (+0.9% QoQ) expectations. This result will likely see the RBNZ remain wary and maintain restrictive policy settings for longer, remembering in their last statement they explicitly highlighted "a low tolerance" for any "increase in time" to return to target.

This concept of wariness and the prospect of maintaining a restrictive bias was affirmed later in the month when Paul Conway delivered a decidedly hawkish speech, pushing back against market expectations of OCR cuts. Conway's speech downplayed weaker economic growth, instead focusing on upside revisions to private consumption and investment. He also downplayed January's declining headline CPI, focusing on the higher-than-expected non-tradeable print. In a similar vein Conway noted that geopolitical tensions may see globalisation "become less of a disinflationary force than it has been". Consequently, the RBNZ should not rely on "substantial declines in imported inflation" to achieve its targets, rather "domestic inflation would need to be lower than it has been historically".

Conway's speech gives us insight into the economic arguments and recommendations that will likely be delivered to the RBNZ's Monetary Policy Committee at their February meeting. This leads us to expect the RBNZ is more disposed to err on the side of caution and is willing to ignore signs of economic and inflation weakness preferring to maintain restrictive policy settings perhaps longer than necessary until the data unequivocally shows inflation has been tamed.

## Fund Commentary

The fund performed well in January returning 0.50% outperforming its benchmark the 90-day Bank Bill Index which returned 0.47%. Over the month markets reduced their rather exuberant expectations of near-term OCR cuts. At the start of the month markets were pricing 119bps of OCR cuts for 2024, whilst at the end only 85bps of cuts were priced. Considering this pricing the fund faded its long duration position over the month (a reduction of 10 days) viewing these OCR cuts as overly optimistic given the RBNZ's rhetoric. Our view here was further solidified post January's somewhat soft CPI print and Conway's hawkish speech. This is not to say that we don't view the OCR as sufficiently restrictive, but rather that we accept the RBNZ will err on the side of caution and maintain restrictive monetary policy settings for perhaps longer than necessary. This notwithstanding, we continue to view the next movement in interest rates as more likely lower rather than higher and remain disposed to adding duration when pricing incorporates more gradual OCR cut expectations.

## Key Fund Facts

<b>Distributions</b>	<b>Hedging:</b> All investments will be in New Zealand dollars	<b>Strategy Launch:</b> October 2007
<b>Wholesale:</b> Calendar quarter	<b>Exclusions:</b> Controversial weapons	<b>Strategy size:</b> \$874.9m
<b>Retail:</b> Calendar quarter	<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) on our website <a href="https://www.nikkoam.co.nz/invest/retail">https://www.nikkoam.co.nz/invest/retail</a> .	<b>Buy / Sell spread:</b> 0.00% / 0.00%
<b>KiwiSaver:</b> Does not distribute		
<b>Estimated annual fund changes (incl. GST)</b>		
<b>Wholesale:</b> Negotiated outside of unit price		
<b>Retail:</b> 0.30%, refer PDS for more details		
<b>KiwiSaver:</b> 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](http://www.nikkoam.co.nz) | [nzenquiries@nikkoam.com](mailto:nzenquiries@nikkoam.com)

This document is issued by Nikko Asset Management New Zealand Limited (Company No. 606057, FSP No. FSP22562), the investment manager of the Nikko AM NZ Investment Scheme, the Nikko AM NZ Wholesale Investment Scheme and the Nikko AM KiwiSaver Scheme. This information is for the use of researchers, financial advisers and wholesale clients. This material has been prepared without taking into account a potential investor's objectives, financial situation or needs and is not intended to constitute financial advice, and must not be relied on as such. Recipients of this document, who are not wholesale investors (in accordance with Schedule 1, Clause 3 Financial Markets Conduct Act 2013), or their duly appointed agent, should consult a Financial Advice Provider and the relevant Product Disclosure Statement. Past performance is not a guarantee of future performance. While we believe the information contained in this presentation is correct at the date of presentation, no warranty of accuracy or reliability is given and no responsibility is accepted for errors or omissions including where provided by a third party. For full details on the fund, please refer to our Product Disclosure Statement on [nikkoam.co.nz](http://nikkoam.co.nz).