

Nikko AM NZ Cash Strategy

Monthly Update 31 October 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

- The RBNZ cut the OCR by 50BPS to 4.75%, noting they see inflation “within its 1 to 3%” target and “converging on the 2% midpoint”.
- Deliberations were between a 25bps and 50bps cut with the latter seen as the “most consistent with the Committee’s mandate of maintaining low and stable inflation, while seeking to avoid unnecessary instability”.
- The RBs short Monetary Policy Review (MPR) statement and meeting minutes provided few clues as to their next move. The pace of future cuts will be data dependent.

Fund Highlights

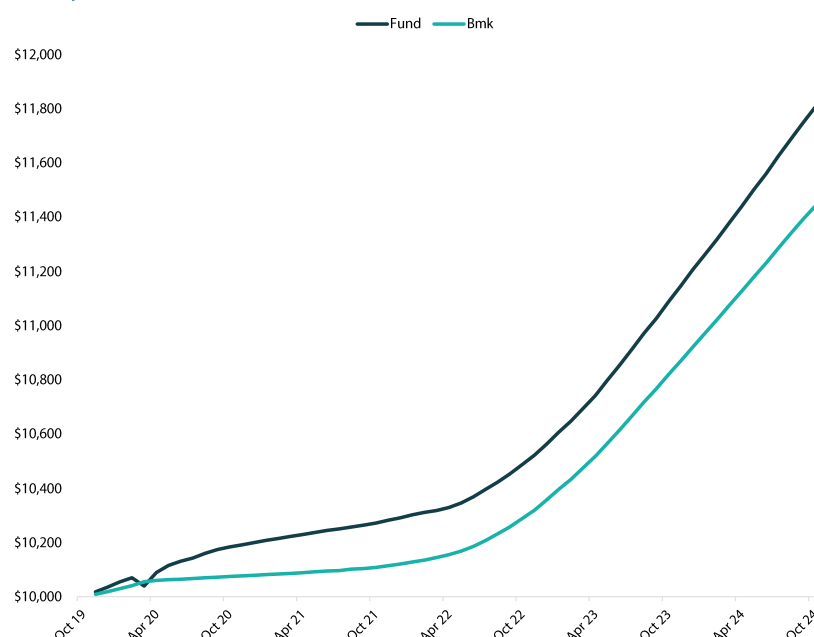
- The fund holds a longer than benchmark duration position reflecting our view that a prolonged easing cycle has started.
- Market expectations for rate cuts are heavily front end loaded, the fund holds floating rate notes and a set of sub 2 month exposures to mitigate the risk the RBNZ delivers rate cuts at a slower pace than priced.
- 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	0.50%	1.53%	6.46%	4.74%	3.37%	3.32%
Benchmark²	0.43%	1.36%	5.73%	4.21%	2.72%	2.55%
Retail³	0.48%	1.46%	6.15%	4.44%	3.06%	2.98%
KiwiSaver³	0.48%	1.46%	6.13%	4.35%	2.95%	

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^{1,2}



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, Senior Fixed Income Manager.

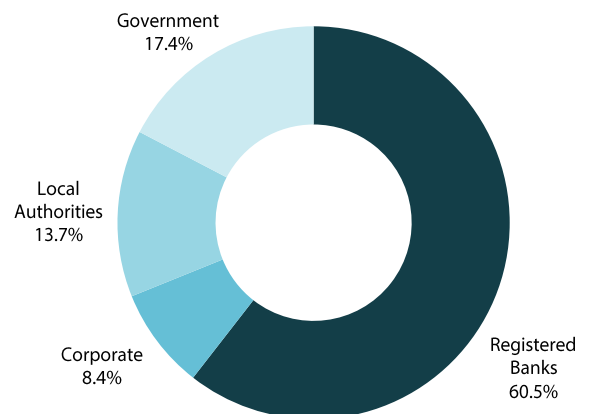
Overview

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
Westpac New Zealand	11.61	AAA	27.99	Fund 87 days vs Benchmark 45 days
NZ Tax Trading Co	9.19	AA	33.64	Portfolio Yield (YTM with FRN yield to next reset date)
Tax Management NZ	8.17	A	38.37	Fund (gross) 5.50% vs Benchmark 4.71%
Rabobank	7.95			
NZ Local Govt Funding Agency	7.46			

Market Commentary

On October 9, the RBNZ delivered a 50bps cut to the OCR, taking it down to 4.75%. The 50bps was widely expected after a soft quarterly survey of business opinion the week prior to the RB's meeting. This aside, the decision to accelerate from easing at 25bps per meeting was somewhat inconsistent with the August Monetary Policy Statement (MPS) and the development of data which has in general been inline or slightly stronger than RB's forecasts. Perhaps in a small nod to this inconsistency the RB noted it deliberated between a 25bps and 50bps cut and that its decision for the latter was in part driven by seeking to "avoid unnecessary instability in output, employment, interest rates, and the exchange rate".

In the immediate aftermath of the decision the RB's nod to market pricing having an impact on their OCR decision resulted in building bets around the potential for the RB to further accelerate its easing pace potentially cutting by 75bps at their November meeting. This exuberance ultimately faded over the month as historic parallels for an acceleration to 75bps were considered, nevertheless at our time of writing markets continue to price a risk of the RB using a 75bps cut in November. We view this acceleration in easing as challenged and unlikely, it's worth noting that the RB considered a 25 and 50bps cut at their October meeting, with no mention of 75 and that in the past rate cuts of 75 bps or more at a single meeting have only occurred in periods of crisis - a state not currently present.

As to short term rate movements from here, the direction of the OCR is undoubtedly down, but the pace at which these moves occur is uncertain. We view the RB's stance as a data dependent easing bias, with our central expectation for a 50bps cut in November. Beyond this, further cuts at this pace are not a done deal, with the pace of easing highly likely to slow as the OCR approaches a neutral level to allow the RB to assess the feedback response. The RB's November MPS will provide an opportunity for them to update the market on their view on the pace and size of future OCR easing.

Fund Commentary

The fund performed well in October returning 0.50% outperforming its benchmark the 90-day Bank Bill Index which returned 0.43%.

In response to the RB accelerating its easing program by cutting the OCR by 50bps, short term interest rates fell as markets extrapolated the RBs faster easing to future meetings. 90-day bills fell 35pts to 4.52%, 6-month bills fell 35.5pts to 4.255% and 1-year swap fell 18pts to 3.90%. With rates falling across the curve and markets increasing bets that a 75-point cut could occur in November the funds long duration position positively contributed to performance. This aside we continue to take a cautious stance regarding the pace of future OCR cuts. We are holding floating rate notes and positions with maturities less than 2-months to mitigate the risk of the RB disappointing the market. The RBs November meeting will provide them an opportunity to affirm or repudiate markets expectations for ongoing rapid rate cuts.

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: \$1,272m 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 month.

Contact Us

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