

Nikko AM NZ Cash Strategy

Monthly Update 30 November 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

- In their final meeting of the year the RBNZ delivered on expectations - cutting the OCR by 50bps to 4.25%.
- The RBNZ's updated track prices around 40bps of easing at their next meeting in February 2025 whilst Governor Orr made a comment in the post statement press conference that suggests a 50bps cut is their baseline expectation.
- The RBNZ continues to view the OCR as restrictive, whilst they may cut another 50bps in February, easing thereafter may be at a more measured pace.

Fund Highlights

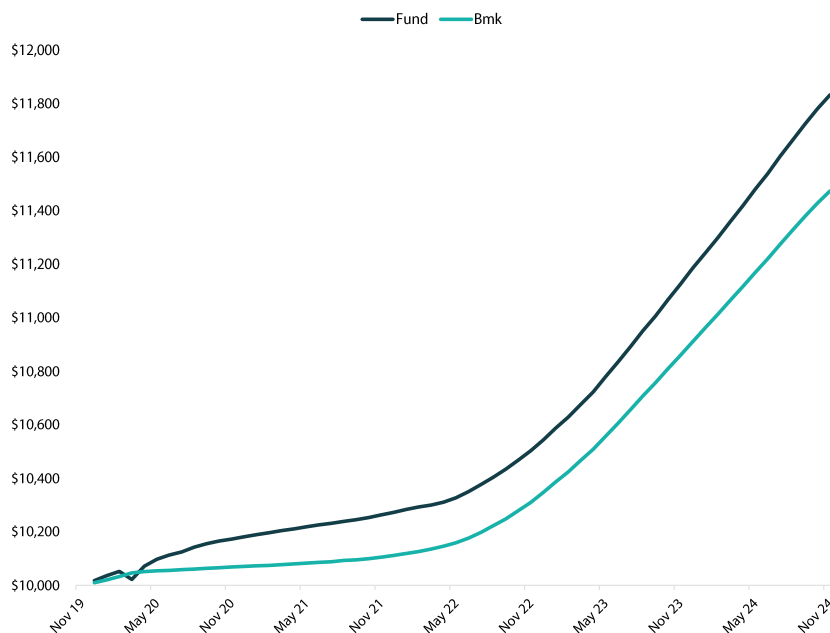
- The fund holds a longer than benchmark duration position reflecting our view that a prolonged easing cycle has started.
- The fund is positioned for continued cuts, however as these are delivered over 2025 a more neutral strategy may be implemented as the OCR converges towards market expectations for the easing cycles endpoint.
- 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	0.44%	1.45%	6.36%	4.86%	3.42%	3.32%
Benchmark²	0.40%	1.29%	5.66%	4.33%	2.79%	2.56%
Retail³	0.40%	1.38%	6.04%	4.55%	3.12%	2.98%
KiwiSaver³	0.39%	1.37%	6.00%	4.46%	3.01%	

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.

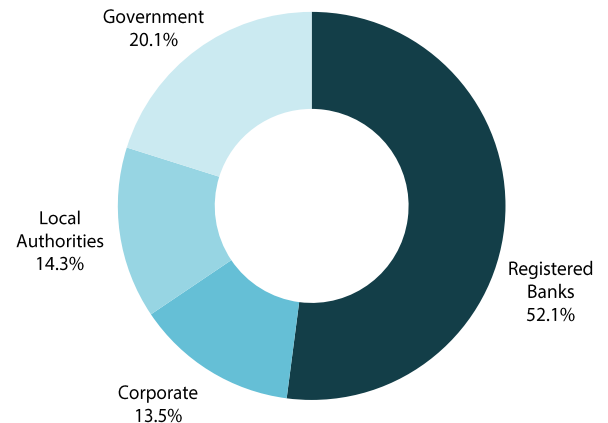
Overview

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
NZ Tax Trading Co	12.49	AAA	32.08	Fund 95 days vs Benchmark 45 days
Westpac New Zealand Ltd	11.07	AA	30.91	Portfolio Yield (YTM with FRN yield to next reset date)
Cooperatieve Rabo U.A.	7.79	A	37.01	Fund (gross) 5.18% vs Benchmark 4.35%
Tax Management NZ Limited	7.65			
NZ Local Govt Funding Agency	7.39			

Market Commentary

In their final meeting of the year, the Reserve Bank cut the OCR by 50bps to 4.25%. Their statement showed increasing confidence that inflation is under control, explicitly highlighting that “expectations are” “close to target and core inflation is converging to the midpoint”. This growing confidence does not indicate the end of the easing cycle, the committee stated it “expects to be able to lower the OCR further early next year”. In this regard the updated track prices around 40bps of easing for the Reserve Bank’s next meeting in February, whilst Governor Orr made a comment in the post statement press conference that suggests a 50bps cut is their baseline expectation. As to easing thereafter, the updated track has a terminal level of 3.06%, much unchanged from August, whilst the statement and forecast suggest a return to a more moderate pace of cuts with pauses increasingly likely as the easing cycle progresses and the OCR approaches a neutral level.

The Reserve Bank’s 50bps cut was widely expected and in aggregate the statement had few surprises to disrupt market pricing. As such short-term interest rates progressed much as forward pricing implied, 90-day bills fell 16bps to 4.36%, 6-month bills fell 12bps to 4.13%, whilst 1-year swap was much unchanged at 3.89% reflecting a decision and statement consistent with average market expectations.

We now head into an extended three-month break from OCR decisions however although there are no meetings the Reserve Bank will very much be in data watching mode. Over this period key data updates include treasuries half-year fiscal update, fourth quarter CPI, third quarter GDP and updated employment statistics which will help inform the Reserve Bank’s next move. Notwithstanding this data watching, we see little likelihood of an about face from an easing bias in the near term.

Fund Commentary

The fund performed well in November returning 0.44% outperforming its benchmark the 90-day Bank Bill Index which returned 0.40%. As widely expected, the RBNZ cut the OCR by 50bps and delivered a statement which in aggregate had few surprises to disrupt market pricing. With no major unexpected movements in short term rates the fund’s positive performance was primarily attributable to its yield advantage. With the RBNZ’s next meeting not for three months and tier one data releases unlikely to cause an about face in the Reserve Bank’s easing bias we expect yield advantage and curve roll will be primary sources of return over the coming months.

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: \$1,288m 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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