

Nikko AM NZ Cash Strategy

Monthly Update 30 April 2025

Assets are held in the Nikko AM Wholesale NZ Cash Fund. The Nikko AM NZ Cash Fund (retail) and the GoalsGetter KiwiSaver Scheme Nikko AM NZ Cash Fund invest in units in the wholesale fund, which the commentary refers to.

Market Overview

- As widely expected the Reserve Bank cut the OCR by 25bps to 3.5% by and large sticking to the script of their February Monetary Policy Statement.
- The OCR easing decision highlighted tariff derived downside risks to economic activity.
- Downside risks notwithstanding the statement was cautious as to future policy decisions highlighting that OCR changes "will be determined by the outlook for inflationary pressure over the medium term."

Fund Highlights

- The fund holds a longer than benchmark duration position reflecting our view that a prolonged easing cycle has started.
- The fund has a yield advantage of 40bps over its benchmark, this may increase as the OCR approaches the endpoint of the current easing cycle.
- Credit quality remains high and is expected to perform well in the face of a recession.

Performance

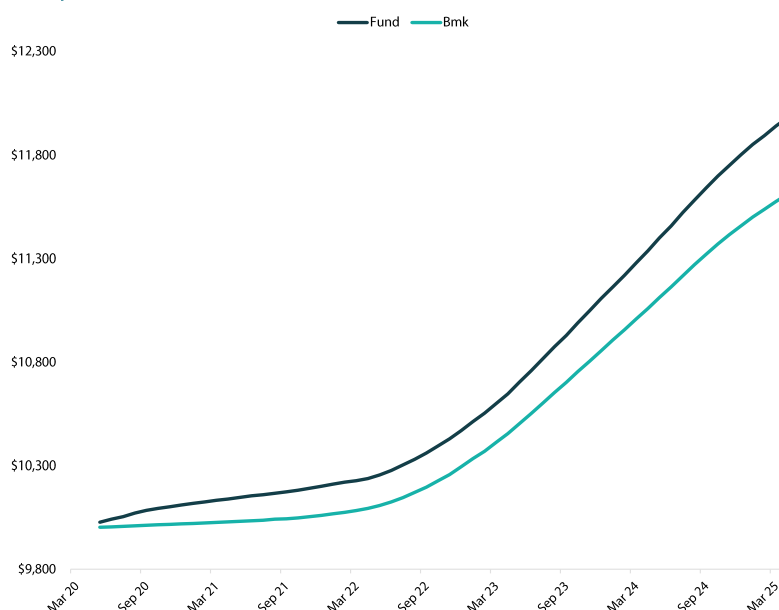
	One month	Three months	One year	Three years (p.a.)	Five years (p.a.)	Ten years (p.a.)
Wholesale¹	0.34%	1.10%	5.68%	5.38%	3.68%	3.34%
Benchmark²	0.30%	0.96%	4.99%	4.78%	3.03%	2.58%
Retail³	0.31%	1.01%	5.37%	5.07%	3.38%	3.00%
KiwiSaver³	0.31%	0.99%	5.28%	4.98%	3.27%	

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.



Morningstar Fund Manager of the Year – Fixed Interest



GoalsGetter KiwiSaver Scheme – Nikko AM Cash Fund

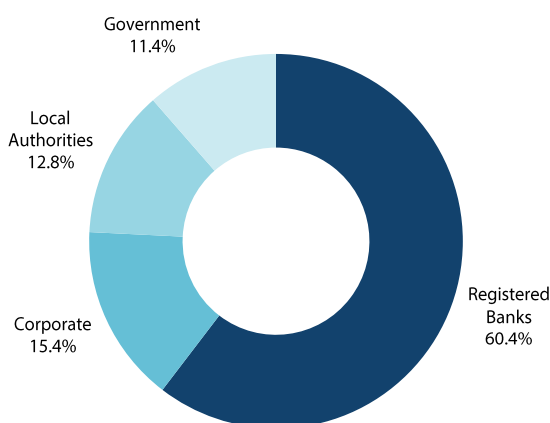
Overview

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 Ltd	15.19	AAA	18.65	Fund 84 days vs Benchmark 45 days
Cooperatieve Rabo U.A.	8.44	AA	44.31	Portfolio Yield (YTM with FRN yield to next reset date)
ASB Bank Ltd	6.55	A	37.04	Fund (gross) 4.17% vs Benchmark 3.52%
NZ Tax Trading Co	6.25			
MUFG Bank Ltd	6.12			

Market Commentary

In April 2025, the Reserve Bank of New Zealand (RBNZ) conducted its most recent monetary policy review, resulting in a further reduction of the Official Cash Rate (OCR) to 3.5%. This decision was driven by the need to support economic growth amidst ongoing tariff derived uncertainties. The statement highlighted tariff related downside risks to both global and domestic growth yet also observed the implications of tariffs on “global and domestic inflation are more ambiguous”. In this regard the statement stressed “having consumer price inflation close to the middle of its target band puts” the bank “in the best position to respond to developments”. In aggregate markets have taken the view that downside risks to growth will see the RBNZ cut the OCR by more than previously assumed. Prior to Trump’s reciprocal tariffs announcements markets were pricing a terminal OCR in the vicinity of 3%, as the month progressed pricing shifted to an endpoint in the range of 2.5% to 2.75%. Whilst this movement in pricing is entirely logical, it is important to remember that there are significant uncertainties at play, this endpoint is far from certain. Dealing with uncertainty will be a key theme of central bank statements over the coming months including the RBNZ’s upcoming May statement.

This uncertainty challenge has been clear in other global central bank decisions and statements. Of recent note we had the Bank of Canada (BOC) and the ECB release statements in April, both of which, like the RBNZ have mandates that purely target inflation. The BOC left its rate unchanged despite being significantly more impacted by US tariffs than New Zealand, however perhaps more of interest was their decision to not provide forward guidance. Emblematic of the uncertainty faced, the BOC presented two possible scenarios and did not highlight which they viewed as more likely. Similarly, the ECB’s cut by 25bps but refrained from providing forward guidance explicitly stating they are “not pre-committing to a particular rate path”. Their statement and Q&A transcript were littered with the word “uncertainty” with Christine Lagarde (president of the ECB) observing that a “neutral rate works in a shock free world and what’s needed now is an appropriate rate” and that she would “not comment on the direction of travel” only that they are committed to their 2% target.

Fund Commentary

The fund performed well in April returning 0.34% outperforming its benchmark the 90-day Bank Bill Index which returned 0.30%. Over the month interest rates fell as markets perceived Trump’s surprising aggressive reciprocal tariffs as negative for growth prospects. 3-months bills fell 17bps to 3.43%, 6-months bills fell 24bps to 3.25% and 1-year swap fell 31bps to 3.04%. As the fund has been running long duration these falls positively contributed to performance. We are now, once again, in a market where the rates curve for short term interest rates is fully inverted with call cash having a higher yield than bills of longer terms. This is the outcome of markets assuming the RBNZ will ease by more than previously expected with central expectations coalescing around a 2.75% end point for the current easing cycle. We agree that the travel of the OCR will continue to be downwards in the near term, however its ultimate endpoint is far from certain. Given this uncertainty we are remaining adaptable in our investment strategy whilst maintaining a long duration position.

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: 0.40%, 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: \$1,474.95m 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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