

# Nikko AM NZ Cash Strategy

Monthly Update 31 May 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 3.25%, however there was one dissenting vote against the cut, in favour of holding and observing developments before continuing to potentially cut.
- The story changed when the RBNZ delivered their post statement press conference, where comments suggested they no longer had an easing bias.
- Markets reassessed the endpoint of the easing cycle with pricing coalescing around a terminal level of 3% as opposed to pre MPS expectations that put more weight on a possible 2.75% endpoint.

## 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 65bps 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.

## 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



OUTSTANDING VALUE  
KIWISAVER - DEFENSIVE 2024

GoalsGetter KiwiSaver Scheme – Nikko AM Cash Fund

## 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>	0.35%	1.09%	5.48%	5.45%	3.70%	3.34%
<b>Benchmark<sup>2</sup></b>	0.30%	0.94%	4.81%	4.84%	3.09%	2.58%
<b>Retail<sup>3</sup></b>	0.32%	1.00%	5.15%	5.14%	3.40%	3.00%
<b>KiwiSaver<sup>3</sup></b>	0.31%	0.97%	5.06%	5.04%	3.28%	

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).

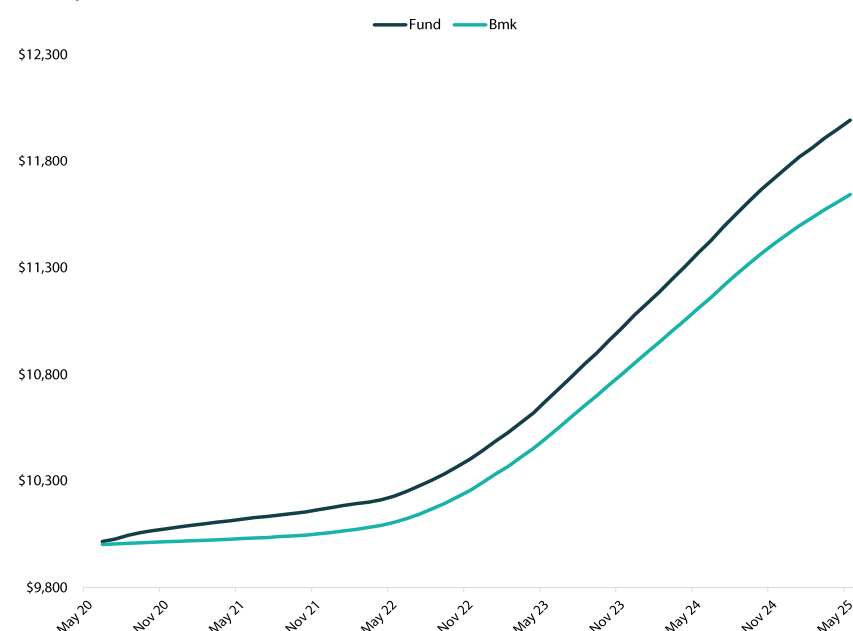
## Overview

The strategy aims to generate income by constructing an actively managed investment portfolio of short-term deposits and bonds whilst preserving capital value.

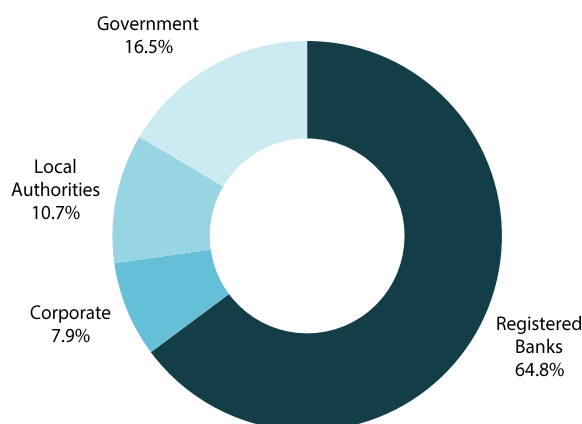
## Objective

The fund aims to outperform the benchmark return by 0.20% per annum before fees, expenses and taxes over a rolling three-year period.

## Five year Cumulative Performance, \$10,000 invested<sup>1,2</sup>



## Sector Allocation



Top 5 Issuers	(%)	Credit Rating	(%)	Duration
Westpac New Zealand	17.26	AAA	17.59	Fund 112 days vs Benchmark 45 days
Tax Management NZ	10.54	AA	45.99	<b>Portfolio Yield</b> (YTM with FRN yield to next reset date)
Rabo bank	10.04	A	36.42	Fund (gross) 4.02% vs Benchmark 3.33%
ASB Bank	8.71			
NZ Tax Trading Co	5.98			

## Market Commentary

With the Reserve Bank due to deliver its second Monetary Policy Statement of 2025 towards the end of the month markets spent much of May contemplating how data has developed since their last statement in February. Key developments and data released in the intervening period include:

- **4Q24 GDP** - which came in stronger than expected at +0.7% QoQ vs Market at +0.4% and RBNZ at +0.3%.
- **1Q25 Unemployment** - which came in higher at 5.3% compared to market and RBNZ expectations at 5.1% and 5.2% respectively.
- **1Q25 CPI** - at +0.9%, slightly higher than the market and RBNZ at +0.8%.
- **2-year inflation expectations** - Released in May increased to 2.29% from 2.06%.
- **Trump's liberation day reciprocal tariffs** - Expected to reduce global growth, whilst having an uncertain but possibly deflationary impact on New Zealand's inflation.
- **The QSBO** - which covered a period prior to Trump's reciprocal tariffs and showed pricing intensions remain near zero, albeit cost expectations remain elevated.
- **April's trade balance** - which came in at \$1.426b the largest monthly number on record, showing the strength of NZ's agricultural and horticultural sectors.
- **Release of the coalitions 25 budget** - which was mildly contractionary from a fiscal standpoint, therefore working mildly against monetary policy.

In our view this produces a mixed story regarding the extent and timing of future easing. On one hand we have items that suggest further easing is appropriate including risks to global growth from tariffs, a weak labour market, a contractionary fiscal stance and a QSBO that suggest companies are not looking to increase prices. Whilst on the other hand there are some unwelcome data that suggest upward risks to inflation. These include CPI inflation towards the upper end of the band, inflation expectations moderately increasing (albeit still reasonably anchored), companies seeing cost pressures which given a return to growth we assume would result in an upward revision to pricing intensions and resilient demand for New Zealand key export commodities.

This uncertainty creates a challenging backdrop for the RBNZ's future decisions - that was apparent in their May statement which mentioned "uncertainty" no less than 164 times. This theme continued into the press conference where it became more apparent that the RBNZ no longer had an easing bias and would enter a period of data watching. Key moments of the press conference included:

- Governor Hawkesby, stating the bank doesn't have a "bias either way" and that at "inflection points" the committee is "more likely to vote than not".
- Governor Conway reaffirming the lack of an easing bias, stating "when you get close to neutral, which is definitely where we are now, it's more a matter of feeling your way rather than being too definitive about" if "policy is stimulatory or otherwise".
- Governor Silk, stating mortgage rates in a "5 to 5.5%" range were in line with their expectations and they would "settle" around that level absent "some extraordinary shock".

Ultimately this more measured, data dependent approach caught some of the market by surprise. Consequently, a reassessment of the OCR's likely terminal level occurred with market pricing derived views coalescing around a 3% level, vs pre MPS expectations of a potential 2.75% endpoint with risks to the downside.

## Fund Commentary

The fund performed well in May returning 0.35% outperforming its benchmark the 90-day Bank Bill Index which returned 0.30%.

The RBNZ's May MPS came in much in line with our expectations. For some time, we have been contemplating the end of the easing cycle and have positioned for this inevitable event by maintaining exposure to floaters and adding positions with maturities 6-months to 1-year where yields on offer were higher than 3-month bills. This is not to say there were no surprises for us in the MPS, rather we were less surprised than others in the market that may have been more aggressively positioned for a continuation of an easing bias and the potential of an OCR in the 2.5% to 2.75% range. Due to these somewhat divergent views across the market, short term interest rates steepened post the MPS with very short rates coming down and longer rates increasing. 3-Month bills came down 11bps to 3.32% as one would expect given a 25bps OCR cut, however rates for longer terms increased as markets reassessed both the timing of future cuts and the potential end point of the easing cycle. Consequently 6-month bills increased 3.5bps to 3.285% and 1-year swap increased 17bps to 3.21%. Whilst the end of the easing cycle is now insight, we do not expect an imminent return to hiking. As such we are increasingly comfortable running a long duration position and are particularly disposed to adding positions with 6-months to 1-year terms where yields are higher than 90-day bills.

## Key Fund Facts

<b>Distributions</b>  <b>Wholesale:</b> Calendar quarter <b>Retail:</b> Calendar quarter <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> 0.40%, refer PDS for more details	<b>Hedging:</b> All investments will be in New Zealand dollars  <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) on our website <a href="https://www.nikkoam.co.nz/invest/retail">https://www.nikkoam.co.nz/invest/retail</a>	<b>Strategy Launch:</b> October 2007  <b>Strategy size:</b> \$1,541.63m  <b>Buy / Sell spread:</b> 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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