

Nikko AM NZ Cash Strategy

Monthly Update 31 July 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 left the OCR unchanged at 3.25% in its July Monetary Policy Review.
- The Reserve Bank appears comfortable to look through upside inflation pressure in the second half of 2025, viewing these as temporary.
- Markets continue to be finely balanced from a Reserve Bank decision standpoint, further cuts are expected, however these may be smaller than some expect as the RBNZ needs to balance its inflation mandate against weak growth and uncertainty.

Fund Highlights

- The fund holds a longer than benchmark duration position reflecting our view that whilst the easing cycle is well progressed a return to hiking in the near term is unlikely.
- The fund has a yield advantage of 53bps 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

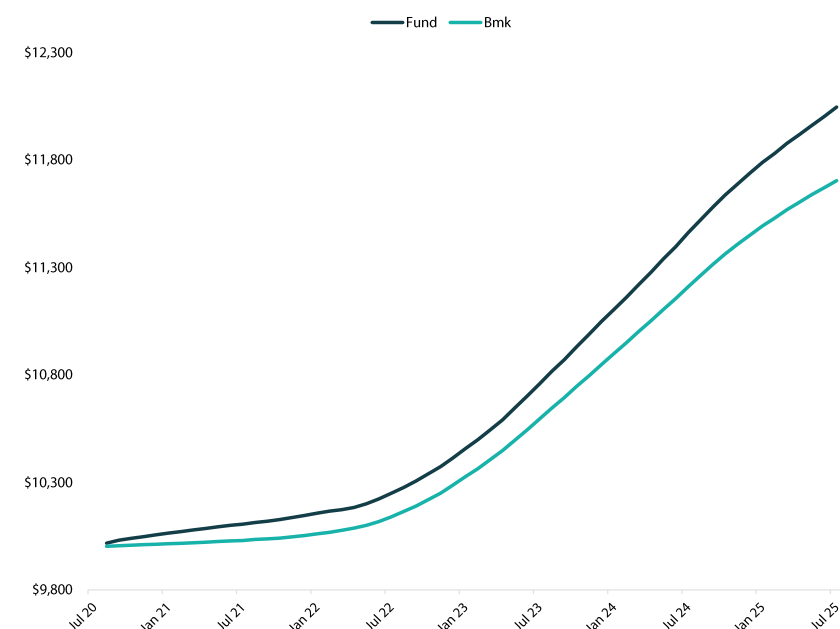
	One month	Three months	One year	Three years (p.a.)	Five years (p.a.)	Ten years (p.a.)
Wholesale¹	0.37%	1.07%	5.10%	5.53%	3.79%	3.34%
Benchmark²	0.28%	0.87%	4.41%	4.90%	3.20%	2.57%
Retail³	0.34%	0.99%	4.78%	5.23%	3.49%	3.00%
KiwiSaver³	0.33%	0.96%	4.69%	5.13%	3.37%	

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.



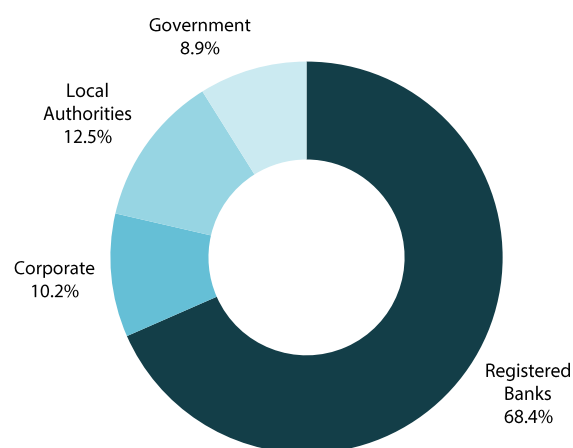
Overview

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 Ltd	15.79	AAA	8.91	Fund 100 days vs Benchmark 45 days
ASB Bank Ltd	10.65	AA	51.19	Portfolio Yield (YTM with FRN yield to next reset date)
Kiwibank Ltd	8.10	A	39.90	Fund (gross) 3.77% vs Benchmark 3.24%
Bank Of China (New Zealand)	5.65			
MUFG Bank Ltd	5.64			

Market Commentary

The Reserve Bank left the OCR unchanged at 3.25% in July, marking the first pause in the easing cycle since it began in August last year. While the decision was broadly expected, the accompanying minutes revealed a robust debate within the Monetary Policy Committee. While some members saw merit in cutting to support weak near-term growth and guard against prolonged economic softness, the prevailing view favoured a pause to assess whether domestic weakness persists and to monitor inflation and inflation expectations. Waiting until August before potentially cutting was viewed the more prudent play, allowing the committee to better evaluate global developments and ensure any further easing remains consistent with price stability.

From a macroeconomic perspective, the Reserve Bank appears comfortable to look through inflation increasing toward the top of its 1–3% target band through the second half of 2025. This reflects short-term pressures from electricity, fuel, and food costs. However, with spare productive capacity in the economy and declining core inflation, the RBNZ expects headline inflation to remain within the band and return to around 2% by early 2026.

Turning to the global backdrop, growth remains weak and risks to the outlook are elevated. Tariff uncertainty continues to weigh on trade flows and investment decisions, with protectionist policies and unresolved trade negotiations contributing to a fragile external environment. These factors are increasingly being cited by central banks globally as headwinds to growth and inflation stability. This aside, it's not a one-sided negative story, we can observe that thus far demand for New Zealand's key exports has been robust, with the agricultural and horticultural sectors doing very well. For New Zealand, this backdrop reinforces the Reserve Bank's cautious approach, as global volatility could spill over into domestic conditions.

In a similar theme, the much-watched Quarterly Survey of Business Opinion (QSBO) was released on the 2nd of July. Again, there was no smoking gun for monetary policy direction. Business sentiment remains subdued. Firms report stagnant sales, weak pricing power, and squeezed margins due to rising input costs. A net 1% of businesses reported lowering prices in the past quarter, while a net 2% expect to lower prices again in the coming quarter - actions and intentions that should be consistent with CPI near or below the midpoint of the RBNZ's target band. Yet despite these tepid pricing behaviours, a net 18% of respondents expressed optimism about future activity. This suggests the RBNZ should be cautious in continued easing, as after a period of margin contraction, if economic activity were to quickly and strongly recover - perhaps due to loose monetary policy - pricing intentions could rapidly pivot to the upside as firms seek to restore lost margin.

All in all, July's decision signals a data-dependent path forward. While further cuts remain likely, the timing and extent will hinge on how inflation and activity data evolve over the coming months.

Fund Commentary

The fund performed well in July returning 0.37% outperforming its benchmark the 90-day Bank Bill Index which returned 0.28%.

Despite the Reserve Bank holding the OCR unchanged at 3.25% in their July review, interest rates fell across the bills and swap curve out to 1 year. Markets have taken to heart RBNZ's comments that suggest it's willing to look through near term inflation pressures and thereby continue to ease as guided in their May MPS. 90-day and 6-month bills both fell 9.5bps to 3.195% and 3.17% respectively, whilst 1-year swap fell 5.75bps to 3.10%. With rates falling the fund's long duration position positively contributed to performance.

With the easing cycle now well progressed and the RBNZ showing willingness to look through near term upside inflation pressure, we are comfortable continuing to run a long duration position. This stance is based on the view that the OCR will remain at its soon to be reached terminal level for around a year to a year and a half unless the data trajectory meaningfully deviates from its current path. As such we are comfortable taking on longer duration positions where they offer a yield advantage over the OCRs level.

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: \$1,671.5m Buy / Sell spread: 0.00% / 0.00%
---	--	---

Compliance

The wholesale fund complied with its investment mandate and trust deed during the month.

Contact Us

www.nikkoam.co.nz | 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.