

Nikko AM NZ Cash Strategy

Monthly Update 30 June 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 (28 May) 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 57 bps 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.



Performance

	One month	Three months	One year	Three years (p.a.)	Five years (p.a.)	Ten years (p.a.)
Wholesale¹	0.35%	1.05%	5.31%	5.49%	3.74%	3.34%
Benchmark²	0.27%	0.88%	4.62%	4.87%	3.14%	2.57%
Retail³	0.33%	0.96%	5.04%	5.19%	3.44%	3.00%
KiwiSaver³	0.32%	0.94%	4.95%	5.09%	3.33%	

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).

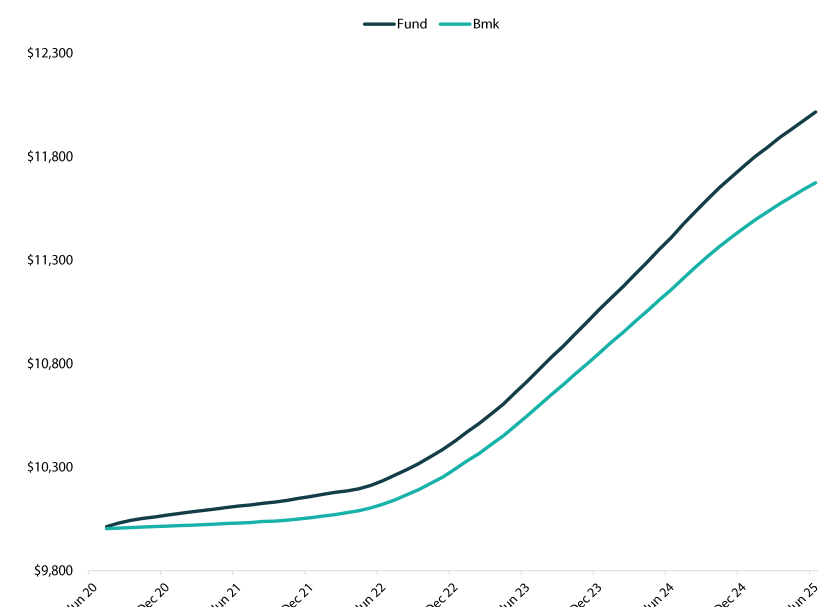
Overview

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

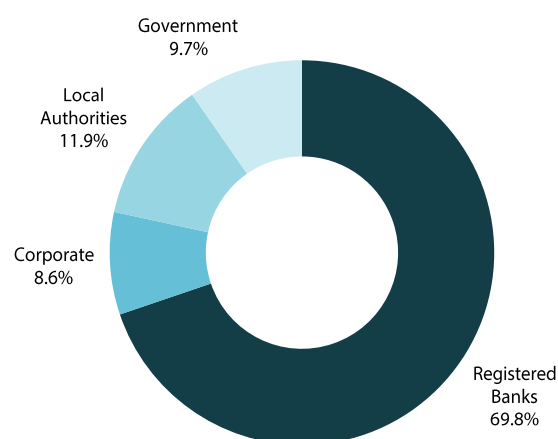
Objective

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^{1,2}



Sector Allocation



Top 5 Issuers	(%)	Credit Rating	(%)	Duration
Westpac New Zealand Ltd	15.71	AAA	9.67	Fund 110 days vs Benchmark 45 days
ASB Bank Ltd	10.00	AA	50.64	Portfolio Yield (YTM with FRN yield to next reset date)
Kiwibank Ltd	7.28	A	39.69	Fund (gross) 3.87% vs Benchmark 3.30%
Rabo Bank	6.22			
MUFG Bank Ltd	5.78			

Market Commentary

As we enter the second half of 2025 we find markets in an environment of pervasive economic uncertainty – be it tariffs and trade agreements, geopolitical disruptions, or central bank direction. This uncertainty has resulted in the Reserve Bank taking a cautious neutral stance - providing markets with limited direction on their likely next move. In the absence of an easing or hiking bias, to form a view on the direction of rates, we find it constructive to focus on how data and conditions have developed relative to the Reserve Bank's most recent May MPS forecasts.

From this perspective, there have been four key developments:

- Stats NZ's monthly selected price indices (SPIs)
- The release of the Quarterly Survey of Business Opinion (QSBO)
- First quarter GDP and
- The US's intervention in the Israel/Iran war

The Reserve Bank next meets on the 9th of July and whilst at this meeting they will not have second quarter inflation numbers to consider they do have guidance from the SPIs. The story is not heartening; these show short term pressure from rising electricity and fuel costs along with commodity driven food price inflation. Indeed, when looking to the most recent CPI projections from bank economists and market pundits, we see forecasts for second and third quarter inflation have been consistently rising and now sit meaningfully above the Reserve Bank's May MPS estimates. The more dovish estimates put second quarter CPI at 2.8%, near the top of the RBNZ's policy target band and meaningfully above their forecast of 2.6%, whilst the more pessimistic forecasts see CPI in the threes, thereby exceeding the target band. All else equal, this provides a headwind to continued easing, even if viewed as somewhat transitory by the Reserve Bank.

In a similar theme the much-watched QSBO was released on the 2nd of July. Here again there was no smoking gun for monetary policy direction. Business sentiment remains tepid. 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, whilst 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 mid point of the RBNZ's band. Yet despite these tepid pricing actions and intentions, a net 18% of respondents express 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.

Then we come to growth, where first quarter GDP well and truly exceeded the Reserve Bank's forecasts, coming in at +0.8%, well above the banks estimate of +0.4%. Looking to the details of the release, private consumption surprised to the upside, or in other words domestic demand was stronger than expected. Whilst growth and inflation do not have a direct causal relationship, stronger than expected growth is more likely to have an upward impact on inflation than downward, again suggesting the RBNZ employ caution in further easing.

Finally, we come to geopolitical events, which appear to be occurring with increased frequency. We have an ongoing US derived trade war along with military action in Ukraine and now between Israel and Iran. As to the implications for inflation a research paper from researchers at the US federal Reserve Board recently shared by monetary policy committee member Bob Buckle titled "Do Geopolitical Risks Raise or Lower Inflation" concludes that geopolitical events are inflationary. Whether one agrees with the paper's conclusion is somewhat moot – rather we find it constructive to observe that this argument was possibly presented in May's MPS debate and that geopolitical events such as the Israel Iran war continue to occur with unfortunate frequency.

All in all we see the net outcome as an increased probability that the RBNZ has either reached the end of its easing cycle for now or perhaps only has a small way to go.

Fund Commentary

The fund performed well in June returning 0.35% and 1.05% for the quarter outperforming its benchmark the 90-day Bank Bill Index which returned 0.27% for June and 0.88% for the quarter.

With the Reserve Bank taking a neutral stance and the data backdrop being equally benign we have taken the view that the end of the easing cycle is well and truly insight. With less concern that front-end rates will continue to fall due to meaningful ongoing OCR cuts we are increasingly comfortable to hold a moderately long duration position to benefit from higher rates offered for term. At the same time, we are comfortable holding floating notes as we expect falls in their base rates are near to an end. In technical terms this positioning is an active carry and roll strategy.

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: \$1,579.15m 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 quarter.

Contact Us

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