

FACTSHEET 30 JUNE 2023

# NIKKO AM NZ CASH STRATEGY

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

- NZ entered a technical recession as first quarter GDP came in at -0.1%.
- With the Reserve Bank (RBNZ) arguably now on hold and no MPS or MPR meetings in the month, 90-day bills traded in a tight range ending the month up 1.5bps at 5.705%.
- Short term rates are now range bound unless we see surprise economic data points or a move in stance from the RBNZ.

## Fund Highlights

- The fund holds a longer than benchmark duration position reflecting a view that the RBNZ's hiking cycle is complete.
- We are looking to opportunistically add duration reflecting a view that the next move in the cash rate is more likely to be down than up.
- Credit quality remains very solid and is expected to perform well in the face of a potential recession.

## Performance

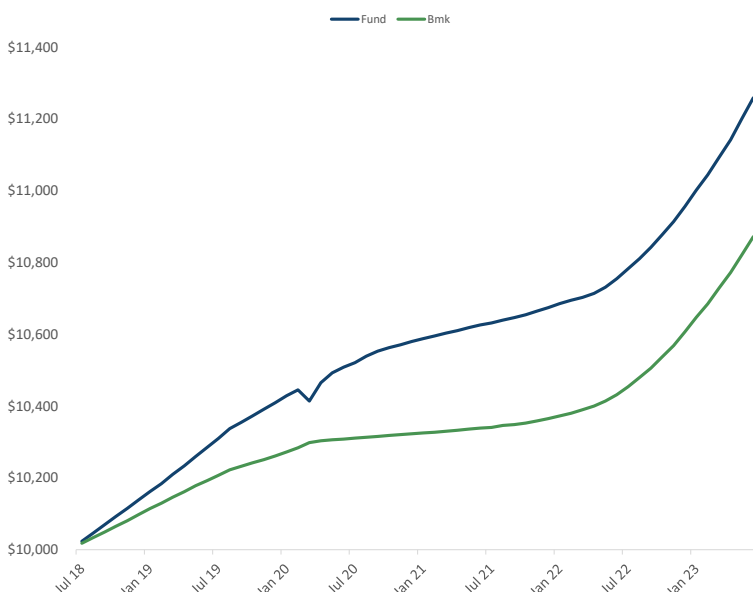
	One month	Three months	One year	Three years (p.a)	Five years (p.a)	Ten years (p.a)
Wholesale <sup>1</sup>	0.51%	1.50%	4.69%	2.33%	2.40%	3.00%
Benchmark <sup>2</sup>	0.46%	1.33%	4.22%	1.79%	1.69%	2.20%
Retail <sup>3</sup>	0.48%	1.40%	4.37%	2.03%	2.07%	
KiwiSaver <sup>3</sup>	0.46%	1.36%	4.21%	1.88%	2.06%	

1. Returns are before tax and before the deduction of fees.

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<sup>1, 2</sup>



## 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, Fixed Income Manager and Matthew Johnson, Fixed Income Manager.

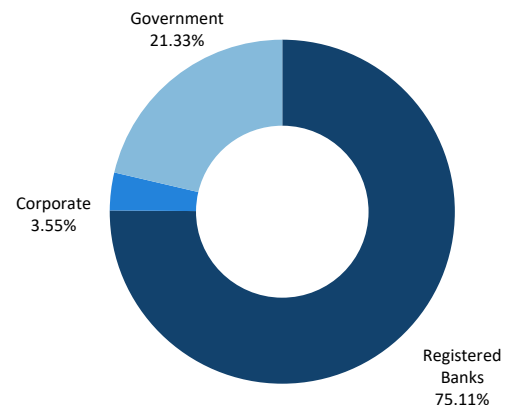
## Overview

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.

## Asset Allocation



Top 5 Issuers	(%)	Credit Quality	(%)	Duration
Westpac New Zealand Ltd	16.19	AAA	21.33	Fund 124 days vs Benchmark 45 days
Tax Management NZ Limited	11.67	AA	37.12	
ANZ Bank New Zealand	9.93	A	41.54	
NZ Tax Trading Co	9.66			<b>Yield to Maturity</b>
Rabobank New Zealand	6.28			Fund (gross) 5.99% vs Benchmark 5.63%

## Market Commentary

With the RBNZ now arguably on hold, limited domestic tier one data prints and no scheduled OCR review meetings, June was a month of relative calmness for short term rates. Over the month 90-day bills traded in a tight range of 3.5bps, opening at 5.69%, seeing lows of 5.67% and ending the month at 5.705%. One year swap rates were less placid, increasing 12bps over the month to end at 5.82%, this upward move is in sympathy with global rates sentiment rather than in response to any domestic data. The lack of volatility and direction are indicative of a new phase for short-rates markets where hikes from the RBNZ are no longer a certainty and data watching holds increasing importance.

This calmer phase does not mean an end to large potential moves in rates. The psyche of the market remains one of flux and rather than accepting a period of sideways “on hold” movement, markets will closely focus on finding data that affirms declining inflation, economic weakness, and potential future OCR cuts. These OCR moves will then be rapidly priced well before their potential future occurrence. This is not to say that markets will be purely directional to the downside; risk remains that data could point to the inflation genie not yet being put in the bottle with a resulting upward move in short rates.

On this stage, domestic tier one data of CPI and employment will be well and truly in the spotlight. Unfortunately, these two data points are released on an infrequent quarterly basis, as such one must look to tier two data and other global proxies to provide a more timely read on the likely next movement for rates. A couple of proxies to closely watch are global CPI prints (especially US inflation) and global trading partner growth. New Zealand CPI basket is roughly 40% weighted to tradables, with the balance of 60% related to domestic sources. In relation to the tradables component, correlation analysis shows this to have a solid relationship with global CPI prints, with this relationship especially strong between US core and NZ tradables (in the high 90s) in the post covid world. Continued softening in global prints, along with data that suggest a normalisation of manufacturing capacity and supply chains could arguably see NZ’s tradable inflation rapidly move towards 0-1% over the coming six months. This will take us to a world where we have 3-4% headline inflation, primarily driven by domestic factors and whilst we expect more stickiness in this area with growth tailing off, we are no longer in a world where domestic inflation should continue to accelerate.

## Fund Commentary

The fund performed well in quarter ending June returning 1.50% outperforming its benchmark the 90-day bank bill index which returned 1.33%. The RBNZ surprised markets in their most recent MPS in May where they sent an unequivocal message that they believe they have now done enough to get inflation under control. Post this decision economic data has continued to soften and whilst we wait for an update on official domestic inflation figures, global data continues to show a downward trend in most economies. Consequently, markets have now entered a new paradigm of data dependence. Whilst there is potential for inflation challenges to reassert themselves, the more likely course seems one of falling inflation along with weakening growth and employment conditions. It is with this backdrop the fund has extended its duration position ending June at 124 days. Strategy from here is to maintain and opportunistically add to this position whilst the short-term rates curve remains upwards sloping. It remains uncertain as to how long the RBNZ maintains this “on hold” stance however data increasingly suggest downside risks are greater than inflation reasserting itself. As such a structural long duration position is core to the fund’s go forward strategy.

## Key Fund Facts

<b>Distributions</b>	<b>Estimated annual fund charges (incl. GST)</b>		
Wholesale fund: Calendar quarter	Wholesale: Negotiated outside of unit price		
Retail fund: Calendar quarter	Retail: 0.30%, refer PDS for more details		
KiwiSaver fund: Does not distribute	KiwiSaver: 0.30%, refer PDS for more details		
<b>Hedging</b>	<b>Buy / Sell spread</b>	<b>Strategy size</b>	<b>Strategy Launch</b>
All investments will be in New Zealand dollars	0.00% / 0.00	\$813.2m	October 2007
<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) which can be found on our website <a href="https://www.nikkoam.co.nz/invest/retail">https://www.nikkoam.co.nz/invest/retail</a> .			

## Compliance

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

## Contact Us

[www.nikkoam.co.nz](http://www.nikkoam.co.nz) | [nzenquiries@nikkoam.com](mailto: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 material has been prepared without taking into account a potential investor’s objectives, financial situation or needs and is not intended to constitute personal 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 retail and KiwiSaver funds, please refer to the relevant Product Disclosure Statement on [nikkoam.co.nz](http://nikkoam.co.nz).