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Nikko Asset Management

YOUR GOALS,
OUR COMMITMENT.

Nikko AM NZ Cash Strategy

Monthly Update 29 February 2024

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

- The RBNZ's February Monetary Policy statement kept the OCR on hold at 5.5%, with a dovish tilt.
- The Statement explicitly highlighted the committee is "confident that the current level of the OCR is restricting demand".
- The Statement acknowledged the weak economic backdrop, noting domestic "growth has been weaker than expected" and that global economic growth is weak and expected to "slow further".

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 maintain a long duration position; however, this may be tempered should markets price cuts at a too rapid pace.
- 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, Fixed Income Manager.

Performance

	One month	Three months	One year	Three years (p.a.)	Five years (p.a.)	Ten years (p.a.)
Wholesale[1]	0.50%	1.56%	6.31%	3.48%	2.89%	3.17%
Benchmark[2]	0.45%	1.41%	5.65%	3.01%	2.19%	2.40%
Retail[3]	0.48%	1.49%	6.00%	3.18%	2.57%	
KiwiSaver[3]	0.49%	1.49%	5.94%	3.07%	2.50%	

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).

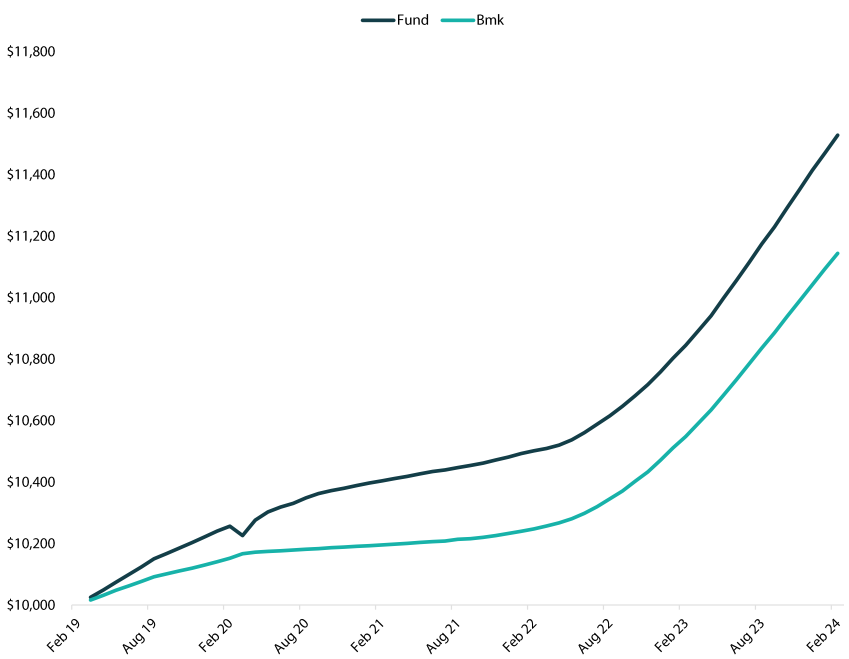
Overview

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

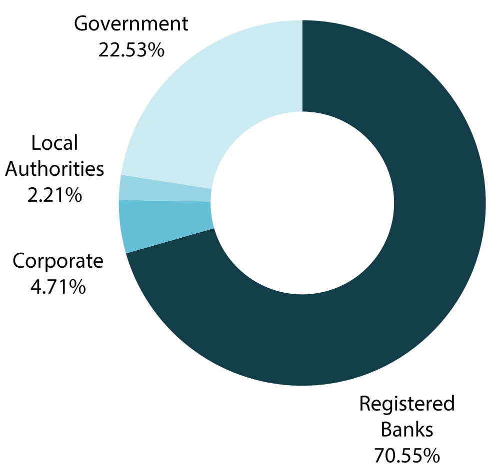
Objective

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	(%)
Tax Management NZ	13.63
Westpac New Zealand	11.94
Kiwibank	9.22
NZ Tax Trading Co	8.90
ASB Bank	6.99

Credit Rating	(%)
AAA	23.09
AA	31.31
A	45.61

Duration
Fund 108 days vs Benchmark 45 days
Yield to Maturity
Fund (gross) 6.03% vs Benchmark 5.6%

Market Commentary

After a three-month break, the Reserve Bank (RB) returned with their first review of 2024 keeping the OCR on hold and affirming monetary policy was working. Whilst a "no change" decision was widely expected, views were not universal, with some pundits expecting a resumption of hikes and many others expecting a very firmly worded hawkish statement – neither of which were delivered. In hindsight, this decision and dovish tilt should have never been in doubt given the increasingly poor economic backdrop, however, we have some sympathy with those that expected otherwise, as the Reserve Bank's rhetoric in November and into 2024 could easily have led one to assume they were going to ignore weak data and have a razor focus on smashing inflation. This notwithstanding the data has clearly turned and it now appears the Reserve Bank agrees with our long-held view that monetary policy is restrictive enough.

The dovish tone of the statement was best exemplified in the RB's summary policy assessment which explicitly highlighted that the committee was "confident that the current level of the OCR is restricting demand" – in other words the OCR is having an impact where it can, and by inference, further hiking is not required. A nod to this reduced probability of further hikes was provided in the much-anticipated OCR track which was revised down (8-9bps) across the forecast horizon and given a terminal forecast period level of 3.16%, some 39bps below November's MPS estimate. This aside it is important to note the RB has not yet moved to an easing bias, they continue to state the OCR needs to "remain at a restrictive level for a sustained period of time".

This leaves markets in a similar situation as to where we started the year, at our time of writing some 50bps of OCR cuts are priced for 2024, a contrary position to the RB's OCR track which suggest cuts will not eventuate until the second quarter of 2025. Ultimately data will decide which path is more correct as the year progresses, though we should remember it is easier for markets to price a pivot in advance than it is for the RB to call one out in its forecasts and messaging as markets are primed to jump on and possibly extrapolate any explicit pivot to an easing bias. As to where this leaves the fund, it is increasingly apparent that one should trade from a long duration position in 2024, seeking to add duration at any jumps in yield that volatility in data may present.

Fund Commentary

The fund performed well in February returning 0.50% outperforming its benchmark the 90-day Bank Bill Index which returned 0.45%. Short term rates traded across a reasonably large range during February, most notably taking a step upwards when ANZ's economic team changed their OCR call to a resumption of hikes and a 6% terminal level, on the 9th of February. On the back of this call 90-day bills jumped 6bps, whilst 1-year swap rates jumped a remarkable 19bps and then remained near these elevated levels for most of the month prior to the MPS date. This shift change to pricing hikes was highly inconsistent with our internal view that no further tightening would be required, as such we took the opportunity to add some duration prior to the Reserve Bank's decision, extending the fund's position by circa 10 days. This proved to be a positive action, with the Reserve Bank's no change decision and dovish tilt resulting in 90-day bills dropping 6bps and 1-year swap 18bps from their pre decision 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:	0.30%, 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:	$903.1m
Buy / Sell spread:	0.00% / 0.00%

Compliance

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

Contact Us

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