

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

- As widely expected the Reserve Bank left the Official Cash Rate unchanged, a pause following its unexpected 50 basis point cut in August.
- Global trade tensions and ongoing weak global growth continue to provide downside risks to NZ growth.
- Domestic data continues to point towards weakness, both business and consumer confidence deteriorated as did the ANZ Truckometer, a measure of domestic activity.

Fund Highlights

- The Cash Fund continues to perform well, benefiting from a higher yield than its benchmark.
- We favour investing in one-year maturities as they continue to provide the highest returns. The fund has been positioned longer than its benchmark resulting in performance benefits following OCR rate cuts.
- Returns will reduce over coming months as longer dated securities mature and the proceeds are reinvested at current market rates.

Performance

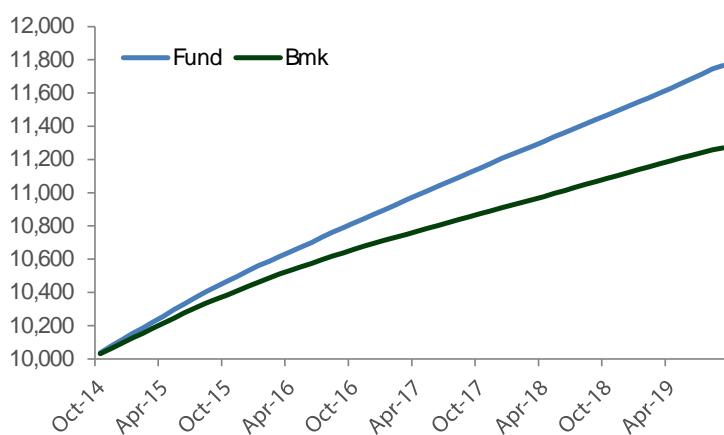
	One month	Three months	One year	Three years (p.a)	Five years (p.a)	Ten years (p.a)
Wholesale ¹	0.17%	0.68%	2.83%	2.93%	3.30%	3.72%
Benchmark ²	0.10%	0.39%	1.82%	1.94%	2.42%	2.65%
Retail ³	0.14%	0.60%	2.47%	2.56%	2.93%	
KiwiSaver ³	0.17%	0.69%	2.86%			

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^{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, Fixed Income Manager and Matthew Johnson, Fixed Income Manager.

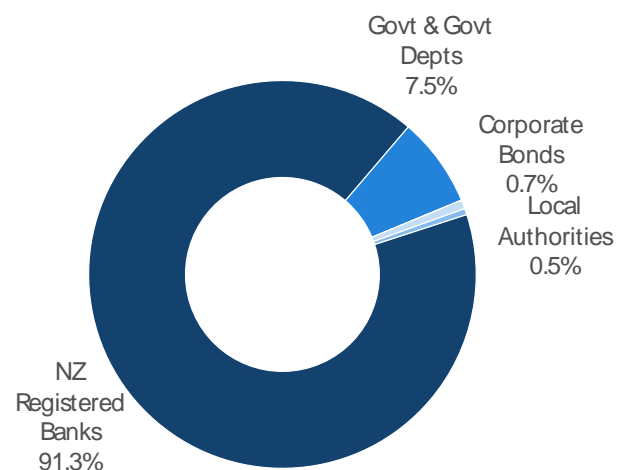
Overview

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	22.10	AAA	-	Fund 119 days vs Benchmark 45 days
Kiwibank Limited	18.87	AA	63.16	
ASB Bank Limited	10.65	A	36.84	Yield
Rabobank New Zealand	8.53	BBB	-	Fund (gross) 2.27% vs Benchmark 1.15%
NZ Government and Government Depts	7.50			

Market Commentary

As widely expected the Reserve Bank left the Official Cash Rate unchanged - a pause following its unexpected 50 basis point cut in August. Notwithstanding the pause a clear easing bias remains with the minutes of the meeting highlighting a number of concerns including global trade, geopolitical tensions, weak business confidence and delays in government spending.

Short term interest rates were relatively unchanged across the month however with ongoing trade uncertainties and weak domestic data prints the market continues to expect further cuts in the official cash rate. Among major banks on 1 October both ASB and Kiwibank revised down their official cash rate estimates to 0.50% showing a building consensus that further rate cuts will occur. At month end the market was pricing an 86% probability of a 25 basis point cut for the November monetary policy statement meeting – this probability slightly down from where it was at the end of August nonetheless is still pricing in a high probability of a rate cut.

The market’s response to falling cash rates means the Reserve Bank has a fine line to walk for future policy decisions. On one hand the Reserve Bank will be pleased that the New Zealand dollar has depreciated supporting New Zealand’s export based economy, conversely they will be somewhat concerned that low and deteriorating business and consumer confidence could create a negative feedback loop, resulting in lower growth and lower inflation expectations. Business and consumer confidence have both deteriorated since the surprise 50 basis point cut in August sitting at eleven and four year lows respectively. With the market clearly pricing in future rate cuts the Reserve Bank needs to keep the prospect of these on the table to maintain pressure on the New Zealand dollar whilst ensuring future decisions do not further spook business and consumers.

Fund Commentary

We continue to favour holding term deposits up to one year in maturity as they offer superior relative returns as risk is weighted towards a lower rate profile. Liquidity is actively managed by ensuring a significant proportion of the fund is in readily marketable securities in high credit quality names and by staggering term deposit maturities.

The fund continued to outperform its benchmark returning 0.17% (gross) compared with 0.10% generated by the 90-Day Bank Bill index. A higher portfolio yield and longer duration position positively contributed to performance.

Key Fund Facts

Distributions		Estimated annual fund charges (incl GST)		
Wholesale fund:	Calendar quarter	Wholesale:	Negotiated outside of unit price	
Retail fund:	Calendar quarter	Retail:	0.35%, refer PDS for more details	
KiwiSaver fund:	Does not distribute	KiwiSaver:	0.46%, refer PDS for more details.	
Hedging		Buy / Sell spread	Strategy size	Strategy Launch
All investments will be in New Zealand dollars		0.00% / 0.00	\$873.6m	October 2007

Compliance

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

Contact Us

www.nikkoam.co.nz | nzenquiries@nikkoam.com

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