

# 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

- Economic data is showing some signs of improvement – house prices (+2.4%) and home sales (+ 3.3%) ticked up, business confidence improved and Fonterra increased its milk price forecast.
- Fonterra raised its farmgate milk price forecast by \$0.30 to a range of NZ\$6.55 to NZ\$7.55 kg/milk solids which is expected to provide an incremental \$450 million gain to regional New Zealand.
- CPI Inflation printed at 1.5% for the year (down from 1.7%). Inflation is still below the Reserve Bank’s target of 2%.

## 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 likely reduce over coming months as longer dated securities mature and the proceeds are reinvested at current market rates.

## Performance

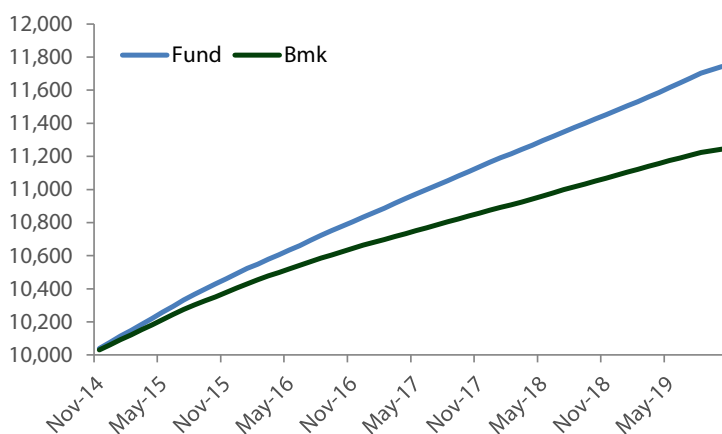
|                        | One month | Three months | One year | Three years (p.a) | Five years (p.a) | Ten years (p.a) |
|------------------------|-----------|--------------|----------|-------------------|------------------|-----------------|
| Wholesale <sup>1</sup> | 0.18%     | 0.61%        | 2.77%    | 2.90%             | 3.27%            | 3.70%           |
| Benchmark <sup>2</sup> | 0.09%     | 0.34%        | 1.75%    | 1.91%             | 2.37%            | 2.63%           |
| Retail <sup>3</sup>    | 0.14%     | 0.52%        | 2.40%    | 2.53%             | 2.89%            |                 |
| KiwiSaver <sup>3</sup> | 0.13%     | 0.57%        | 2.72%    |                   |                  |                 |

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.

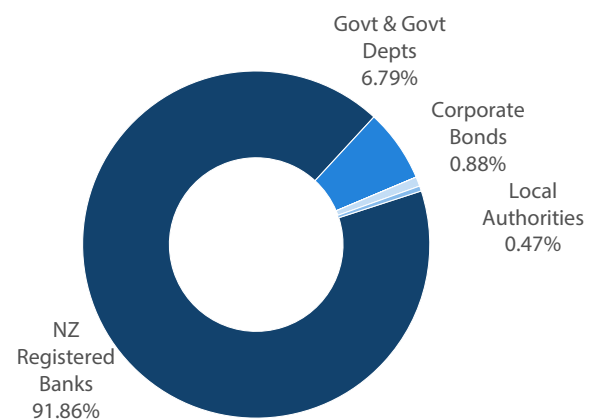
## Overview

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 | 22.50 | AAA            | -     | Fund 112 days vs Benchmark 45 days    |
| Kiwibank Ltd            | 19.53 | AA             | 64.60 |                                       |
| ASB Bank Limited        | 10.63 | A              | 35.40 | <b>Yield</b>                          |
| Rabobank                | 8.68% | BBB            | -     | Fund (gross) 2.25% vs Benchmark 1.11% |
| Bank Of New Zealand     | 6.61% |                |       |                                       |

## Market Commentary

Economic data is showing some signs of improvement across October. Key amongst these were improvements in house prices up 2.4%, house sales up 3.3% both year on year, and Fonterra increasing its farmgate milk price forecast by \$0.30 to a range of NZ\$6.55 to NZ\$7.55 kg/milk solids. The increase in Fonterra’s pay-out represents a potential incremental gain of \$450 million to regional New Zealand. These improvements have flowed through to both business and consumer confidence.

A recent Consumer Confidence survey had a broad based improvement up 4 points to 118 index points with both the current conditions (near term confidence) and future conditions (longer term confidence) indices improving. The only dark spot in the survey was in views on if it was a good time to buy a major household item which was down 5 points to +36, we do note that this is still very healthy positive news. Business confidence jumped from -53.5 to -42.4, we note this remains well in negative territory however it could represent a possible bottoming out and turning point of improving sentiment.

Global risk factors reduced in October with a de-escalation of US-China trade tensions. This has reduced downside risks to global growth and consequently weakened the argument for additional cuts from the RBNZ based purely on global trade tensions and growth concerns.

On the back of these data releases the yield curve steepened with short term assets decreasing slightly in yield and longer term assets increasing. The yield curve continues to show the market expects the Reserve bank to cut rates however views on the timing and number of rate cuts have changed. At month end the market was pricing in roughly a 50% probability of a cut occurring in November. This a significant change from the start of the month where a November cut looked certain and was priced at an 86% probability. There is also an increasing divergence amongst key economists in the number and timing of cuts – Westpac now expects only one cut, ASB, BNZ and Kiwibank expect two cuts and the ANZ expects three cuts. This divergence in view could result in some market movements once the Reserve bank updates its stance in its Monetary Policy Statement on November 13.

## Fund Commentary

We continue to favour holding term deposits up to one year in maturity as they offer superior relative returns and will perform well if interest rates fall further. 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 0.18% compared to 0.09% 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                             | \$854.8m                           | October 2007    |

## Compliance

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

## Contact Us

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