

# 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

- The Reserve Bank surprised the market leaving the Official Cash Rate (OCR) unchanged at 1%. The market had been pricing an approximate 80% probability of a 25bps cut, which when it didn't eventuate resulted in a sharp movement up in short-term rates.
- An easing bias was maintained and the RBNZ stated "interest rates will need to remain at low levels for a prolonged period"
- The RBNZ views current policy settings as "very stimulatory" and appears comfortable to observe data and adjust interest rates if necessary.

## 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

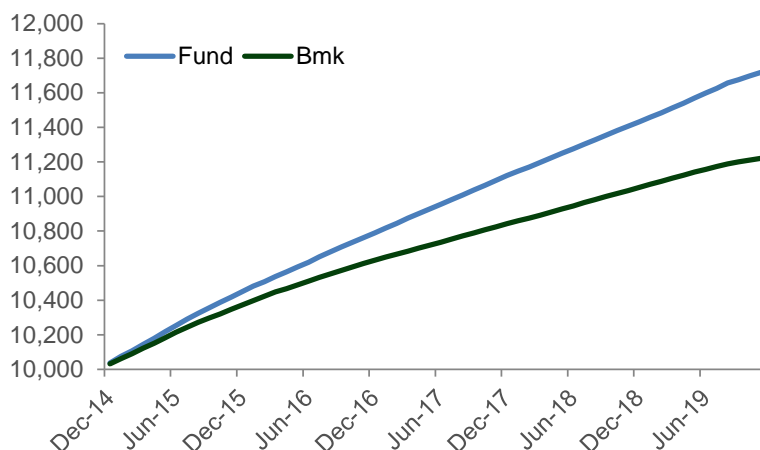
	One month	Three months	One year	Three years (p.a)	Five years (p.a)	Ten years (p.a)
Wholesale <sup>1</sup>	0.18%	0.52%	2.73%	2.88%	3.22%	3.69%
Benchmark <sup>2</sup>	0.09%	0.28%	1.69%	1.87%	2.33%	2.62%
Retail <sup>3</sup>	0.14%	0.42%	2.34%	2.50%	2.85%	
KiwiSaver <sup>3</sup>	0.13%	0.43%	2.63%			

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.



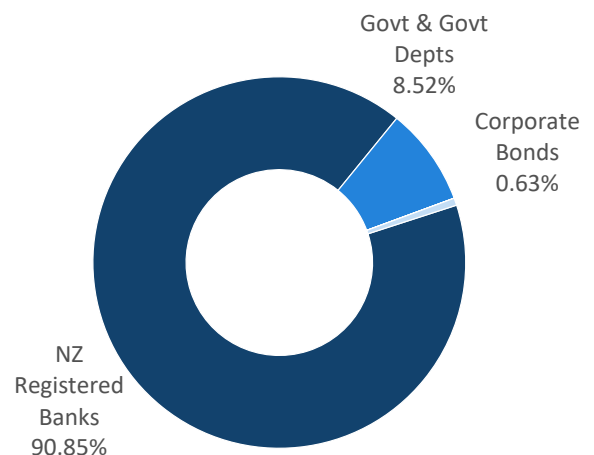
## Overview

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	22.26	AAA	-	Fund 109 days vs Benchmark 45 days
Kiwibank Ltd	19.26	AA	64.69	
ASB Bank Limited	10.47	A	35.31	<b>Yield</b>
Rabobank	7.40	BBB	-	Fund (gross) 2.17% vs Benchmark 1.16%
Bank Of New Zealand	6.88			

## Market Commentary

The Reserve Bank surprised the market leaving the official cash rate unchanged at 1%. Prior to the RBNZ announcement the market had been pricing an approximate 80% probability of a 25bps cut. There was a sharp movement up in short term rates as the expected rate cut wasn't delivered. Swap rates initially jumped up over 15bps for shorter maturities and easing back slightly by month end to finish between 9 and 13 bps higher than where they sat prior to the on-hold decision.

The RBNZ's Monetary Policy Committee debated between an on-hold position and a 25bps cut, deciding on balance that economic developments since its 50bps cut in August did not justify a cut. The RBNZ views its current policy settings as "very stimulatory" and appears comfortable to wait and observe the impact of its previous cut. Notwithstanding this "on-hold" position an easing bias remains. The bank called out that "Interest rates will need to remain at low levels for a prolonged period" and stated near-term risks were still to the downside and the bank remains prepared to act as required.

With the Reserve Bank's next meeting not until 12 February we expect short end rates to move to a holding pattern. There are two key data points between now and the next meeting, these being the RBNZ bank capital decision on December 5 and Q3 Gross Domestic Product (GDP) on December 19. Given the RBNZ would likely have known their bank capital decision at the Monetary Policy Statement date this leaves Q3 GDP and global market factors as potential surprise factors for the bank's February meeting.

We note the global backdrop has improved recently, most notably an improvement in trade relations between the US and China. They agreed to work towards a 'Phase One' trade agreement whereby China would buy large quantities of US agricultural goods and make some other concessions in exchange for the suspension of import tariffs. These positive developments do not signal an end of trade tensions between these two parties, we expect continued machinations by both parties over the coming years and that tensions could quickly be reignited.

## 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%. A higher portfolio yield positively contributed to November's return whilst the fund's longer duration position detracted with the rally in rates post the surprise OCR decision. Over time we expect a longer duration with is associated pickup in yield to positively contribute 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
All investments will be in New Zealand dollars		0.00% / 0.00	\$866.7m
		Strategy Launch	October 2007

## Compliance

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

## Contact Us

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