

NIKKO AM NZ CASH FUND

Monthly Fact Sheet

30 November 2016



Investment objective

The objective of the Fund is to construct a portfolio of permitted investments that outperform the Fund's benchmark return by 0.2% per annum over a rolling three year period before fees, expenses and taxes.

Benchmark

Bloomberg NZBond Bank Bill Index (from 1 July 2016)

Fund description

The Fund aims to provide investors with regular income by constructing an actively managed investment portfolio of short term deposits and bonds whilst preserving capital value.

The Fund gains its investment exposures by investing into the Nikko AM Wholesale NZ Cash Fund which is managed by the Nikko AM NZ Fixed Income team.

Distributions

Quarterly. Last business days of March, June, September and December.

Management fees and other charges

A management fee of 0.25% per annum calculated as a percentage of the net asset value of the Fund will be deducted from the Fund.

Nikko AM may also recover expenses (including the Trustee fee) from the Fund up to a maximum of 0.15% per annum of the Fund's net asset value. As at the time of publication these expenses are estimated to be 0.08% per annum.

Buy/sell spread

Nil

Investment restrictions

Nikko AM Wholesale NZ Cash Fund

- Authorised investments are cash, deposits and debt securities with an interest rate exposure of up to 365 days, issued or guaranteed by any NZ registered bank, SOE, NZ Government, NZ local authority and NZ and overseas corporate.

- Securities issued by corporates and registered banks must have minimum credit rating of A1 short-term and A long term (Standard and Pools). Derivative counterparties must have A or better credit rating and all derivative exposure shall be covered by cash or physical holdings.

Refer to the SIPO for full details of permitted investments and restrictions.

Performance

(NZD returns; before tax, after fees and expenses)

1 month	3 months	6 months	1 year
0.23%	0.69%	1.43%	2.94%
2 years (pa)	3 years (pa)	5 years (pa)	Inception (pa)*
3.37%	n/a	n/a	3.48%

* June 2014

Distributions

Cents per unit	Mar	Jun	Sep	Dec
2016	1.00	0.55	0.50	
2015	0.75	0.70	0.90	0.70
2014			0.70	0.50

Asset allocation (% of fund)

NZ Government, Government Department or Government Guaranteed	10.1%
NZ registered banks	84.7%
Local authorities	3.2%
Corporate bonds & SOEs	2.0%

Credit rating profile

S&P rating	% portfolio
AAA	0.7%
AA	72.6%
A	26.7%

Top 5 issuers (% of fund)

Westpac Banking Corporation	19.5%
Kiwibank	16.6%
Bank of New Zealand	16.0%
ASB	14.0%
NZ Government	10.1%
Number of issuers in portfolio	22

Duration and yield

Duration	Fund 122 days versus benchmark 45 days
Yield	Fund (gross) 2.95% versus benchmark 1.93% Fund (net) 2.62%* versus OCR 1.93%

* After management fee and expenses

Commentary

The Fund remains a high credit quality, low interest rate risk portfolio. The average credit rating is targeted around AA- S&P, the duration of the portfolio is currently 122 days.

The Official Cash Rate (OCR) was cut by 25 basis points in November, to an all-time low of 1.75%. The cut was widely expected by the market, as was the shift from an easing bias to a neutral one. The key paragraph in the Monetary Policy Statement said that policy will continue to be accommodative, and that at current settings economic growth should be strong enough to see inflation head towards the middle of the target band of 1-3%.

The short-end of the yield curve became upward sloping over November, indicating the market believes the rate cutting cycle has ended. Over November the 90-day rate closed down 12 points to 2.04% and the 1-year swap was up 4 points to 2.11%.

New Zealand’s economic growth looks to be maintaining the momentum it has gathered over recent months. Adding to the positive environment is the bounce back in dairy prices and it seems unlikely that the recent Kaikoura earthquake will knock the economy off course.

Global interest rates have moved higher. On the face of it Donald Trump’s Presidency win will mean larger fiscal spending in the US - which should generate economic growth and inflation. Global Central Banks seem to be stepping away from further monetary easing, albeit cautiously. The US Fed will be making an interest rate call in December and the market is widely expecting a hike. The forecast for further hikes will be very interesting as this may need to be adjusted for the potential fiscal spend and may drive rates across the curve higher still.

The market in New Zealand is not pricing in an OCR move for some time. The RBNZ stated that numerous uncertainties remain, particularly in respect of the international outlook - policy may need to adjust accordingly.

The Cash Fund has a higher yield and a longer duration than the 90-day bank bill index. The higher yield should lead to continued strong performance of the Fund. We have been buying high credit quality commercial paper as a source of added liquidity and portfolio duration. Margins on 12-month term deposits remain attractive. Highly rated short term fixed and floating rate securities have become more available lately, at attractive levels. Locking in these types of assets has been of benefit to the portfolio as rates have continued to go lower.

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