

# NIKKO AM NZ CASH FUND

## Monthly Fact Sheet

## 31 December 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
0.21%	0.67%	1.43%	2.89%
2 years (pa)	3 years (pa)	5 years (pa)	Inception (pa)*
3.29%			3.45%

\* June 2014

### Distributions

Cents per unit	Mar	Jun	Sep	Dec
2016	1.00	0.55	0.50	0.65
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	9.2%
NZ registered banks	87.2%
Local authorities	1.3%
Corporate bonds & SOEs	2.3%

### Credit quality

AAA	0.7%
AA	71.2%
A	28.1%

## Top 5 issuers (% of fund)

Westpac Banking Corporation	23.9%
Kiwibank	17.1%
ASB	14.2%
Bank of New Zealand	12.0%
NZ Government	9.1%
<b>Number of issuers in portfolio</b>	<b>19</b>

## Duration and yield

Duration	Fund 124 days versus benchmark 45 days
Yield	Fund (gross) 3.00% versus benchmark 1.89%
	Fund (net) 2.67%* versus OCR 1.89%

\* After management fee and expenses

## Commentary

Over the month of December the Fund returned 0.21%, compared to the 90-day Bank Bill Index return of 0.18%. 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 124 days.

The short end of the yield curve is upward sloping, indicating the market believes the rate cutting cycle has likely finished for now with the Official Cash Rate at an all-time low of 1.75%.

Over December the 90-day rate closed down 19 points to 1.85%, 1-year swap was up 7 points to 2.18%.

Global interest rates have moved higher. On the face of it Donald Trump's Presidency will mean a 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 hiked rates as expected in December. The Committee members surprised the market with their projections for a faster pace of rate rises, being much more aggressive than previously indicated. The US Dollar strengthened and rates lifted further as a result.

The interest rate market in New Zealand is pricing in a rate hike towards the end of 2017. This is an indication of the confidence the market has regarding the end of the recent cutting cycle. There is potential that the RBNZ starts a hiking cycle earlier than indicated. New Zealand economic data continues to provide us with confidence, the housing market appears to have slowed but is still at elevated levels, and capacity is constrained in several areas. The strengthening USD and the re-emergence of inflation and inflation expectations all point towards needing to lift rates from all-time lows. The RBNZ has stated that numerous uncertainties remain, particularly in respect of the international outlook, and 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 readily available lately, at attractive levels.

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