nikko am
Nikko Asset Management

NIKKO AM NZ CASH FUND

Monthly Fact Sheet 28 February 2017

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 Poors). 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%	0.68%	1.37%	2.86%

2 years (pa)	3 years (pa)	5 years (pa)	Inception (pa)*
3.20%			3.41%

* 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	10.0%
NZ registered banks	87.8%
Local authorities	1.2%
Corporate bonds & SOEs	1.0%

Credit quality

AAA	0.7%
AA	69.0%
A	30.3%

Top 5 issuers (% of fund)

Westpac Banking Corporation	23.4%
Kiwibank	17.2%
ASB Bank Limited	13.4%
Bank of New Zealand	11.2%
NZ Government	10.2%
Number of issuers in portfolio	**18**

Duration and yield

Duration	Fund 106 days versus benchmark 45 days
Yield	Fund (gross) 2.94% versus benchmark 1.89% Fund (net) 2.61%* versus OCR 1.75%

* After management fee and expenses

Commentary

Over the month of February the Fund returned 0.26% (gross of fees and taxes) compared to the 90-day Bank Bill Index return of 0.15%. The Fund remains a high credit quality, low interest rate risk portfolio. The average credit rating is targeted around AA- (S&P) and the duration of the portfolio is currently 106 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 February the 90-day rate was unchanged at 2.00%, 1-year swap was down 5 points to 2.09%.

The Reserve Bank of New Zealand (RBNZ) left the OCR unchanged at 1.75% at the February Monetary Policy Statement (MPS). The tone of the MPS was very neutral, and the RBNZ has indicated it is on hold for some time. The NZ economy remains in expansionary mode supported by high population growth, strong tourism and construction sectors.

Rising commodity prices together with improved consumer and business sentiment, has also improved the New Zealand and global outlook. In a recent speech, the RBNZ Governor said risks around future Official Cash Rate movements are equally weighted, reflecting balanced risks around inflation. The Bank sees the balance of risks for the global outlook to be to the downside highlighting on-going surplus capacity and rising geo-political uncertainty. Global headline inflation has increased, partly due to rising commodity prices. Long term rates have also increased however monetary policy is expected to remain stimulatory, but less so than in the past.

We are expecting a prolonged period of 'no change' in the OCR however expect the next change will be an increase. The market is currently pricing in a 40% chance of an increase in November 2017.

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. We have been buying floating rate notes lately, at margins that are at the upper level of recent ranges and will provide good income over the benchmark index. Short dated fixed rate securities have become scarce again. Our recent buying activity in this space has proved opportune with the slight spread contraction and scarcity we now see.