NIKKO AM NZ CASH FUND

Monthly Fact Sheet 30 April 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%	0.69%	1.37%	2.85%

2 years (pa)	3 years (pa)	5 years (pa)	Inception (pa)*
3.10%			3.38%

* June 2014

Distributions

Cents per unit	Mar	Jun	Sep	Dec
2017	0.65			
2016	1.00	0.55	0.50	0.65
2015	0.75	0.70	0.90	0.70

Asset allocation (% of fund)

NZ Government, Government Department or Government Guaranteed	9.7%
NZ registered banks	86.7%
Local authorities	2.2%
Corporate bonds & SOEs	1.4%

Credit quality

AAA	1.8%
AA	71.4%
A	26.8%

Top 5 issuers (% of fund)

Westpac Banking Corporation	20.6%
Kiwibank	16.0%
ASB	15.0%
ANZ Bank	11.7%
Bank of New Zealand	10.9%
Number of issuers in portfolio	**17**

Duration and yield

Duration	Fund 99 days versus benchmark 44 days
Yield	Fund (gross) 2.8% versus benchmark 1.88% Fund (net) 2.45%* versus OCR 1.75%

* After management fee and expenses

Fund commentary

The fund outperformed its benchmark over the month (gross). The higher yield was the main contributor with the longer than benchmark duration also adding value. We expect the higher yield to continue to contribute to strong performance of the fund. We have been buying high credit quality commercial paper as a source of added liquidity and portfolio duration, and we have been rolling commercial paper at margins in the upper levels of the tender bids. Margins on 12-month term deposits remain attractive. Credit margins on fixed and floating rate bonds have contracted, and our recent buying activity in this space has added to performance.

Market commentary

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 April the 90-day and 1-year swap rate were both unchanged at 2.00% and 2.07% respectively.

Economic data released during April showed the economy performed well in the first quarter, and momentum should see a continued expansion. Business and consumer confidence has softened, but from a high level. The housing market has moderated in recent months. Even though bank funding costs have been stable mortgage rates have been going up, providing a tightening to credit and the housing market. Investor LVRs also appear to have had an impact. The strength of the March quarter CPI inflation surprised, pushing annual inflation to 2.2%, the highest since 2011. One-offs accounted for part of this, and excluding food, petrol and energy, annual inflation would have been 1.6%. The NZD was an underperformer at month end on global trade concerns, but has since recovered somewhat.

The market is forecasting the next OCR move to be up, pricing in an 80% chance by Feb 2018. We tend to agree with this assessment as the RBNZ is currently on hold with equal weight given to either an up or a down move. An earlier move is unlikely as NZ has a General Election in September and Graeme Wheeler is stepping down from his role as Governor in September. Global monetary policy, the level of the NZ Dollar and the impact of tradable inflation, CPI inflation, the housing market, and the maturity of this economic cycle will all help determine the direction, and extent of the next move. We expect the next move to be up, and are of the view that the next tightening of monetary policy will not have to go as far as it may have in the past to have the same effect of balancing the economy.