nikko am
Nikko Asset Management

NIKKO AM NZ CASH FUND

Monthly Fact Sheet 30 June 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 vehicle is a NZ domiciled Portfolio Investment Entity (PIE) which is priced daily. 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
0.21%	0.68%	1.38%	2.83%

2 years (pa)	3 years (pa)	5 years (pa)	Inception (pa)*
3.00%	3.38%		3.34%

* June 2014

Distributions

Cents per unit	Mar	Jun	Sep	Dec
2017	0.65	0.50		
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	11.4%
NZ registered banks	82.7%
Local authorities	3.5%
Corporate bonds & SOEs	2.4%

Credit quality

AAA	1.2%
AA	77.2%
A	21.6%

Top 5 issuers (% of fund)

Westpac Banking Corporation	21.4%
Kiwibank	16.0%
ASB	13.7%
ANZ Bank	12.2%
NZ Government Departments	11.4%
Number of issuers in portfolio	**18**

Duration and yield

Duration	Fund 117 days versus benchmark 45 days
Yield	Fund (gross) 2.87% versus benchmark 1.88% Fund (net) 2.53%* versus OCR 1.75%

* After management fee and expenses

Fund commentary

The Fund outperformed its benchmark over the quarter. The higher yield was the main contributor with the longer than benchmark duration also adding value. The higher yield should lead to continued strong performance of the Fund. Margins on 12-month term deposits remain attractive. Margins on fixed and floating rate bonds are attractive when looking at global comparisons, and we have been taking advantage of this recently.

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 RBNZ leaving the Official Cash Rate at an all-time low of 1.75% at the June OCR review.

Over June the 90-day rate moved up 4 points to 1.99%, and the 1-year swap rate was up 6 points to 2.09%.

The RBNZ used the statement at the OCR review to reiterate its most recent forecast published at the Monetary Policy Statement, and the OCR is firmly on hold. GDP growth was 0.5% for the March Quarter and below forecasts of 1.1%. The construction sector lagged, while dairy and the primary sector had a strong positive contribution. Growth per capita remains modest. It is worth noting that quarterly GDP numbers can be heavily influenced by short term movements in particular sectors, and are subject to being volatile. Consumer and business confidence are both at good levels, albeit down from recent highs. Wage inflation remains moderate, but is expected to increase due to labour market capacity constraints. The housing market, particularly in Auckland, has slowed and will likely continue to do so up to the election. The main take away from this is that the economy is growing modestly, not roaring away unsustainably, and that the OCR at these levels and the RBNZ forecast of being on hold for the foreseeable future seems entirely appropriate. Q2 CPI data is due during July - this will help form a picture around the timing of potential future changes in the OCR. The market is currently pricing an 80% chance of a hike by March 2018.

On the global front the European Central Bank, the Bank of England, and to a lesser extent the US Fed, at the end of June had co-ordinated statements around the future path of interest rates and monetary conditions. In a nut shell, the Central Bankers have said that they see inflation reappearing, and monetary conditions normalising in due course. This was all likely in response to a global market that did not appear to believe this to be the case, as evident in the recent global bond rally. As a result of this global bonds have sold off, and yield curve steepened out to the long end. New Zealand bonds have followed suit, with our 10-year Government bonds selling off 0.26% at the end of June. If global central banks do begin to be more aggressive in normalising rates and tightening monetary conditions, it would make it easier for the RBNZ to begin to hike rates. Our view is that the RBNZ would not want to be the only central bank raising interest rates again, as was the case in 2014.