

# Nikko AM Wholesale NZ Cash Fund

## Fund manager

Nikko Asset Management New Zealand Limited (Nikko AM NZ).

In New Zealand we actively manage around NZ\$5 billion of investments for a diverse group of clients, including superannuation schemes, charitable trusts, KiwiSaver scheme providers, corporations and local government along with providing services to financial intermediaries through wrap platforms. We offer investment management services in domestic sectors (equities, fixed interest and cash) through our Auckland-based investment team and employ offshore managers to manage global sectors (global equities, global bonds and alternative investments).

## Fund launch

1 October 2007 – a similar portfolio has been operated by Nikko AM NZ since January 1992.

## Investment objective

To construct a portfolio of authorised investments that outperform the Fund's benchmark return by 0.2% per annum over a rolling three year period before fees.

## Benchmark

Bloomberg NZBond Bank Bill Index (from 1 July 2016)

## Investment philosophy

Nikko AM NZ's focus on duration management and achieving a high running yield on the portfolio enables us to deliver an investment outcome that has a high probability of out-performing the benchmark.

Nikko AM NZ's decision-making process revolves around interpreting and forecasting possible changes to monetary policy in the months ahead and quantifying the likely impact on portfolio performance.

The Fund invests directly into capital market securities. We seek to enhance the return from the cash sector by the selective use of floating rate notes and short dated corporate debt.

## Investment guidelines

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 counter parties must have A or better credit rating and all derivative exposure shall be covered by cash or physical holdings.

*For full details see investment mandate.*

## Structure and taxation

The Fund vehicle is a NZ domiciled Portfolio Investment Entity (PIE) which is priced daily. Investors elect their own Prescribed Investor Rate. Information is provided to the IR and investors on an annual basis.

## Distributions

Quarterly – last week of March, June, September and December

## Currency management

All investments will be in New Zealand dollars

## Management fees and other charges

Investment management fees will be negotiated separately with each investor and invoiced outside the Fund.

All Fund statutory and operating costs will be met directly by the Manager.

## Buy/sell spread

Nil

## Trustee

Public Trust

## Custodian

Public Trust as legal custodian, BNP Paribas Fund Services Australasia Pty Limited delegated as functional custodian.

**Disclaimer** | This document is issued by Nikko Asset Management New Zealand Limited (Company No. 606057, FSP No. FSP22562), the investment manager of the Nikko AM NZ Investment Scheme and the Nikko AM NZ Wholesale Investment Scheme. This information is for the use of researchers, financial advisers and wholesale clients. This material has been prepared without taking into account a potential investor's objectives, financial situation or needs and is not intended to constitute personal financial advice, and must not be relied on as such. Recipients of this document, who are not wholesale investors (in accordance with Schedule 1, Clause 3 Financial Markets Conduct Act 2013), or their duly appointed agent, should consult an Authorised Financial Adviser and the relevant Product Disclosure Statement or Fund Fact Sheet. Past performance is not a guarantee of future performance. While we believe the information contained in this presentation is correct at the date of presentation, no warranty of accuracy or reliability is given and no responsibility is accepted for errors or omissions including where provided by a third party.

### Performance (NZD gross returns)

	Fund	Benchmark*	Excess
1 month	0.26%	0.18%	0.08%
3 months	0.76%	0.56%	0.21%
6 months	1.61%	1.16%	0.45%
1 year	3.25%	2.49%	0.76%
2 years (pa)	3.69%	2.95%	0.74%
3 years (pa)	3.85%	3.09%	0.77%
5 years (pa)	3.94%	2.93%	1.01%
10 years (pa)	5.10%	4.09%	1.01%

\* S&P/NZX Bank Bills 90-Day Index prior to 1 July 2016

### Fund size

NZ\$694 million

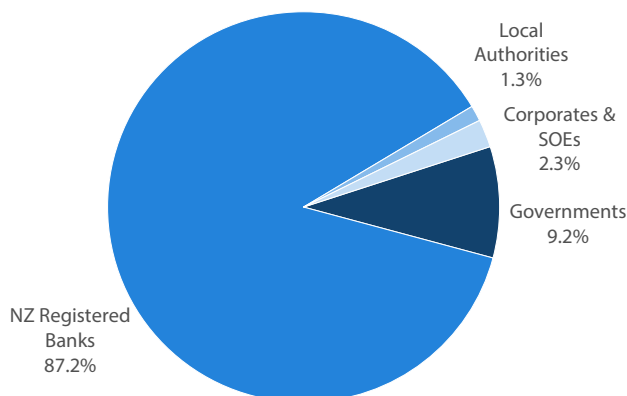
### Duration and yield

Duration	Fund 124 days versus benchmark 45 days
Yield	Fund 3.00% versus benchmark 1.89%

### Credit quality

AAA	0.7%
AA	71.2%
A	28.1%

### Asset allocation (% of fund)



### 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>

### Compliance

The Fund complied with its investment mandate during the month.

### Commentary

Over the month of December the Fund returned 0.26%, 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.