

NIKKO AM NZ CASH FUND

Monthly Fact Sheet

Why Nikko Asset Management NZ?

As a dedicated global investment manager Nikko AM NZ pairs local knowledge and experience with significant global resources. The Nikko group manages around US\$200 billion globally, including around NZ\$5 billion in New Zealand.

Fund overview

The NZ Cash 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.

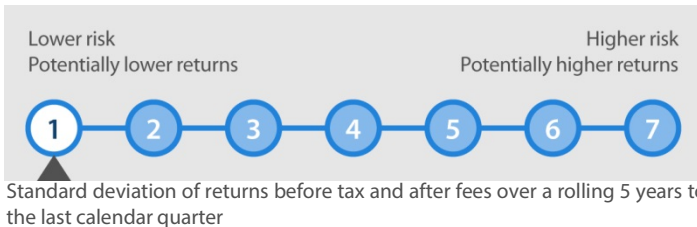
Benchmark

Bloomberg NZBond Bank Bill Index

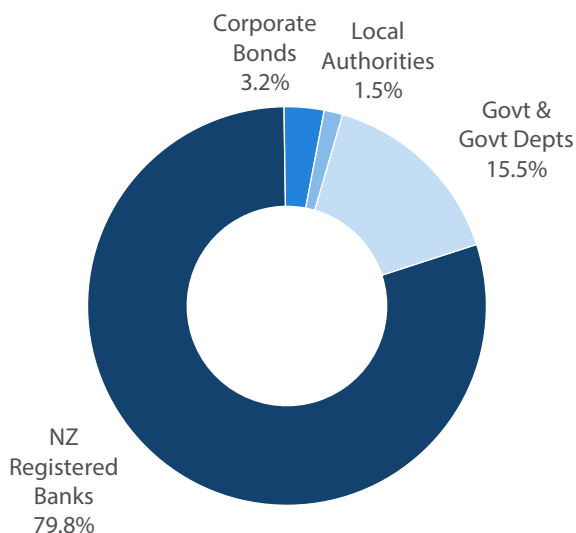
Performance objective

The aim is to outperform the benchmark by 0.20% per annum before fees, expenses and taxes over a rolling three year period.

Risk indicator



Asset allocation



Portfolio management team

Fergus McDonald is Head of Bonds and Currency and is responsible for the investment of the Bond, Cash and Currency mandates. Fergus has been actively involved in the NZ financial markets since 1981.



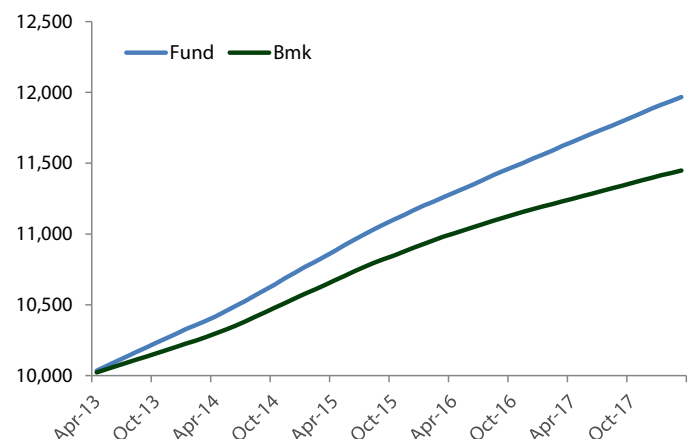
The portfolio management team for the domestic fixed income funds includes Ian Bellew, Fixed Income Manager and Tim O'Loan, Fixed Income Analyst.

Performance returns

	Gross ¹	Benchmark	Net ²
1 month	0.24%	0.15%	0.19%
3 months	0.69%	0.46%	0.60%
1 year	2.97%	1.95%	2.62%
2 years	3.09%	2.10%	2.73%
3 years (pa)	3.35%	2.47%	2.97%
5 years (pa)	3.66%	2.74%	
10 years (pa)	4.39%	3.27%	

1. Gross Returns are before tax and before the deduction of fees.
2. Net Returns are before tax but after the deduction of fees and expenses and including tax credits (if any).

Five year cumulative performance (gross)¹



Credit quality (% of fund)

AAA	0.11%
AA	94.32%
A	5.57%

Top 5 issuers (% of fund)

Westpac	22.3%
NZ Government & Government Depts	15.6%
ANZ	13.1%
Kiwibank	12.8%
Rabobank	8.5%
Number of issuers in the portfolio	22

Duration and yield

Duration	Fund 128 days vs benchmark 45 days
Yield	Fund (gross) 2.78% vs benchmark 1.89%

Key fund facts

Strategy launch date

October 2007

Strategy FUM

\$674.2m

Fund structure

PIE funds – wholesale and retail

Fees in retail fund:

Management fee 0.25%p.a

Expenses (maximum) 0.15%p.a

Expenses (current) 0.10%p.a

Buy/sell spread

nil

Distributions

Calendar quarter

Benchmark

Bloomberg NZBond Bank Bill Index

Hedging

All investments will be in New Zealand dollars

Market commentary

Over March NZ short term interest rates were marginally higher, the 90-day rate moved up 4 basis points to 1.96%, and the 1-year swap rate was up 5 basis points to 2.07%.

At the March review the RBNZ left the Official Cash Rate (OCR) unchanged at an all-time low of 1.75%. The RBNZ noted that global economic growth continues to improve and global inflationary pressures are emerging. Commodity prices have continued to increase and agricultural prices are picking up. Equity markets remain strong, but volatility has returned in 2018.

Contact us

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Important Information

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Globally monetary policy remains accommodative, but it has been well signalled by global central banks that policy is gradually becoming less stimulatory. The RBNZ remains positive of growth, and is down-playing downside risks.

During March the Minister of Finance and the incoming RBNZ Governor Adrian Orr released the updated Policy Target Agreement (PTA). The new PTA states that policy must now also be set to support maximum levels of sustainable employment in the economy, as well as price stability, this change was well foreshadowed during last year's election. On the face of it two targets and one tool could seem problematic, in the case that unemployment and inflation rise what does the RBNZ prioritise? Our early thoughts are that price stability will still rule, but even with this as a starting point we would expect the RBNZ to be flexible and pragmatic with policy settings.

The market is pricing a full hike to the OCR by mid to late 2019. Our assessment is that the most likely move in the OCR is up, but it is unlikely to be in 2018. We will look to the first Monetary Policy Statement for the incoming Governor for any guidance on whether this timeframe may change, but we think that unlikely. We expect the RBNZ will largely stay on their current course and reiterate the line, or some variation of, that "numerous uncertainties remain and policy may need to adjust accordingly."

Fund commentary

The fund continued strong outperformance of its benchmark over March. A higher portfolio yield was the main contributor with the longer than benchmark duration also adding value.

The fund has held a duration longer than benchmark for some time now, on the basis that we have not seen any urgent need for the RBNZ to hike the OCR, and term deposit credit margins being attractive at the 1-year point of the interest rate curve.

The secondary market at the moment is characterized by a general lack of liquidity; there is a very limited amount of high credit quality bonds available for sale. Margins on commercial paper tenders have widened recently, from being flat to negative bank bills, and we have participated in some tenders at wider than weighted average margin. We have continued to buy bank negotiable certificate of deposits and term deposits at relatively attractive levels.

Compliance

The Fund complied with its investment mandate, SIPO and Trust Deed during the month.