

NIKKO AM NZ CASH STRATEGY

Applies to: Nikko AM Wholesale NZ Cash Fund and Nikko AM NZ Cash Fund (retail) and Nikko AM KiwiSaver Scheme NZ Cash Fund

Market Overview

- The Reserve bank left the Official Cash Rate (OCR) unchanged.
- An easing bias was maintained with a weaker global growth outlook and ongoing subdued domestic growth called out.
- The market continues to expect rate cuts to occur during 2019, with predictions around this happening sooner increasing.

Fund Highlights

- The Cash Fund continues to perform well, benefiting from a higher yield than its benchmark.
- We favour investing in one year maturities as they continue to provide the highest returns. The fund has been positioned longer than its benchmark with resulting performance benefits following the May 8 rate cut.
- The current level of return will slightly reduce over coming months as longer dated securities mature and the proceeds are reinvested at current market rates.

Performance

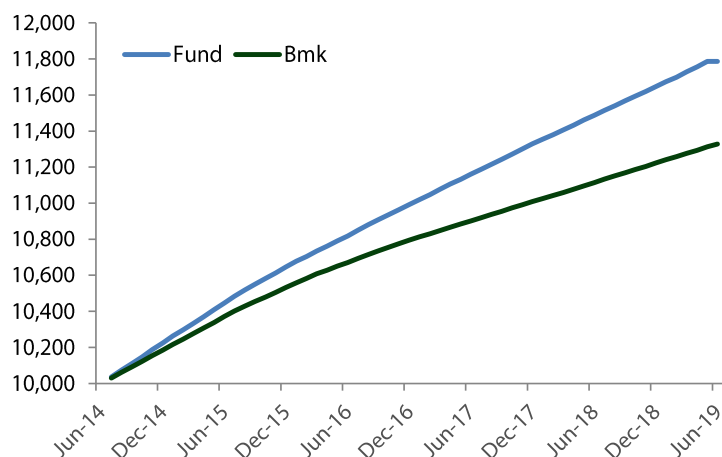
	One month	Three months	One year	Three years (p.a)	Five years (p.a)	Ten years (p.a)
Wholesale ¹	0.25%	0.74%	2.85%	2.98%	3.39%	3.75%
Benchmark ²	0.13%	0.45%	1.92%	2.01%	2.52%	2.68%
Retail ³	0.20%	0.65%	2.46%	2.61%	3.03%	
KiwiSaver ³	0.23%	0.73%	2.86%			

1. Returns are before tax and before the deduction of fees

2. Benchmark: Bloomberg NZBond Bank Bill Index. No tax or fees.

3. Returns are before tax and after the deduction of fees and expenses and including tax credits (if any).

Five Year Cumulative Performance, \$10,000 invested^{1, 2}



Portfolio Manager

Fergus McDonald,
Head of Bonds and Currency



Fergus 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 Matthew Johnson, Fixed Income Manager.

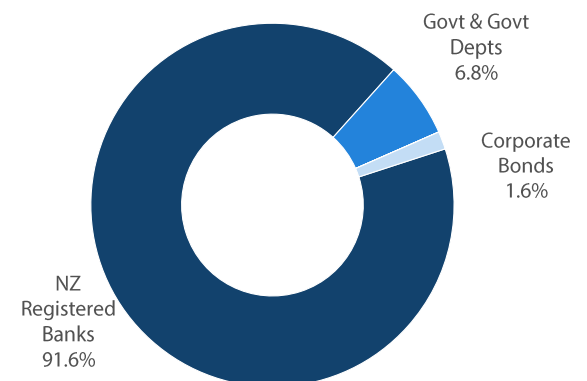
Overview

The strategy aims to generate income by constructing an actively managed investment portfolio of short-term deposits and bonds whilst preserving capital value.

Objective

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

Asset Allocation



Top 5 Issuers	(%)	Credit Quality	(%)	Duration
Westpac New Zealand	26.11	AAA	-	Fund 131 days vs Benchmark 45 days
Kiwibank Limited	19.17	AA	62.44	
ASB Bank Limited	9.83	A	37.56	Yield
Rabobank New Zealand	9.78	BBB	-	Fund (gross) 2.39% vs Benchmark 1.63%
NZ Government and Government Depts	6.78			

Market Commentary

As widely expected the Reserve Bank left the OCR unchanged at 1.50% and the language around its policy assessment and summary record of meeting notes suggest its easing bias has strengthened since its May Monetary Policy Statement (MPS). Reference to a “balanced outlook for interest rates” has been replaced with risks to achieving (the RBNZ’s) objectives “are tilted to the downside”.

Continued weakness in global growth, concerns around the impact of trade tensions and weakening global trade were key committee discussion topics. It was noted these factors can dampen domestic business investment.

On the domestic front, growth remains below expectation – items of note include the impact of softer house prices on consumer spending and subdued wage growth despite low unemployment. On the positive side the 2019 budget included increased spending however the immediate impact on growth will be limited as it takes time for new initiatives to progress from conception to execution. Potential capacity constraints notably in the construction market are also a concern. A tight labour market, government desire for lower immigration and the need to compete against Australia for infrastructure expertise (which currently has a record 10 year A\$100 billion infrastructure spend pipeline) may see slower than expected progress.

Fund Commentary

With an easing bias retained for 2019 we remain disposed to a long duration position relative to the fund’s benchmark with its associated gains in yield. We continue to favour holding term deposits up to 1-year in maturity as they offer superior relative returns. Liquidity is actively managed by ensuring a significant proportion of the fund is in readily marketable securities and by staggering term deposit maturities. The fund remains invested in high quality credit names, we believe constructing a portfolio focusing upon higher yield will deliver an attractive level of return relative to the fund’s benchmark.

The fund continued to outperform its benchmark returning 0.25% compared to 0.13% generated by the 90-Day Bank Bill index. A higher portfolio yield and longer duration position positively contributed to performance. The RBNZ has an easing bias stating “a lower OCR may be needed over time” in its most recent OCR release. With an easing bias intact we are comfortable locking into one year assets as risk is weighted towards a lower rate profile. Holding a longer duration than the benchmark also helps the fund maintain a high portfolio yield relative to the 90-day bank bill index.

Key Fund Facts

Distributions

Wholesale fund:	Calendar quarter
Retail fund:	Calendar quarter
KiwiSaver fund:	Does not distribute

Estimated annual fund charges (incl GST)

Wholesale:	Negotiated outside of unit price
Retail:	0.35%, refer PDS for more details
KiwiSaver:	0.46%, refer PDS for more details. Fee waived until 30/9/2019

Hedging

All investments will be in New Zealand dollars

Buy / Sell spread

0.00% / 0.00

Strategy size

\$872.1m

Strategy Launch

October 2007

Compliance

The fund complied with its investment mandate and trust deed during the month.

Contact Us

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