

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 market's conviction around an impending rate cut by the Reserve Bank increased.
- Bank bill rates fell by between 11 and 15 basis points, larger movements shown in shorter term bills.
- Economic data remains soft. Business confidence weakened, commodity prices softened - notably dairy and logs, and national house price growth slowed with a drop in Auckland prices a strong contributor.

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 resulting in performance benefits following OCR rate cuts.
- 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

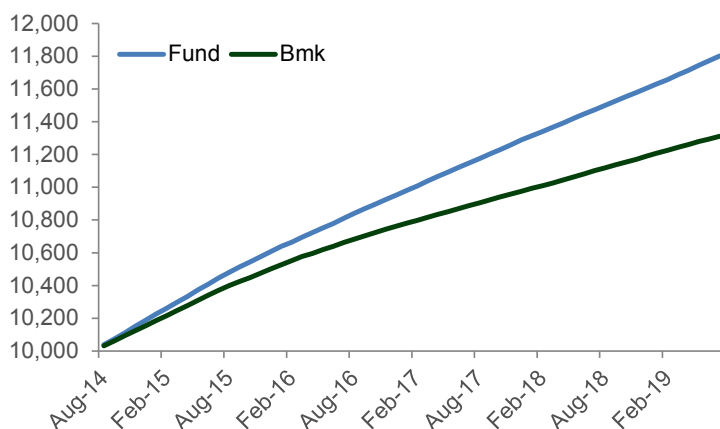
	One month	Three months	One year	Three years (p.a)	Five years (p.a)	Ten years (p.a)
Wholesale ¹	0.24%	0.74%	2.86%	2.96%	3.37%	3.74%
Benchmark ²	0.15%	0.45%	1.89%	1.99%	2.49%	2.67%
Retail ³	0.22%	0.65%	2.47%	2.60%	3.00%	
KiwiSaver ³	0.25%	0.73%	2.87%			

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.

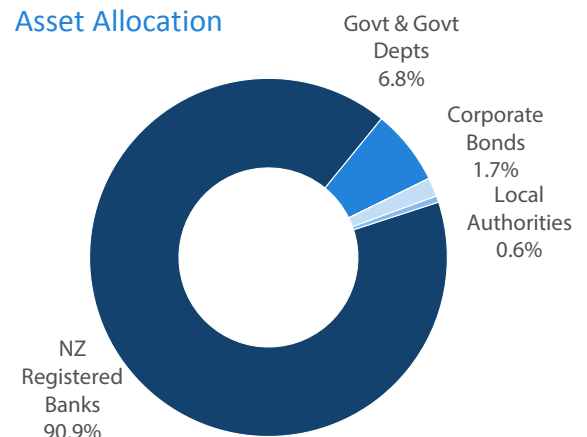
Overview

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



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Top 5 Issuers	(%)	Credit Quality	(%)	Duration
Westpac New Zealand	20.17	AAA	-	Fund 127 days vs Benchmark 45 days
Kiwibank Limited	18.78	AA	61.7	
ASB Bank Limited	10.69	A	38.2	Yield
Rabobank New Zealand	9.82	BBB	-	Fund (gross) 2.38% vs Benchmark 1.50%
NZ Government and Government Depts	6.94			

Market Commentary

The market's conviction around an impending official cash rate cut in August increased. At June month-end the one month overnight swap rate was fully pricing in a 25 basis point (bps) cut for the Reserve Bank's (RBNZ) August meeting whilst longer dated contracts imply a probability of further cuts to come. Correspondingly bank bill rates fell across the month as this conviction built with rates falling by between 11 and 15 basis points, the larger movements for the shorter terms. In its June meeting the RBNZ noted a concern around weakness in global growth and the impacts of increasing trade tensions. There was no abatement in this risk with central banks globally continuing to call out the need for accommodative monetary policy. The Fed cut rates by 25bps in its 31 July meeting with its Chairman Jerome Powell highlighting that "foreign growth has disappointed, particularly in manufacturing and notably in the euro area and China" and the impact of trade tensions "ongoing uncertainty is making some companies more cautious about their capital spending". A similar story was presented in the European Central Banks (ECB) 25 July meeting with "softening global growth dynamics and weak international trade" called out. On the domestic front, consumer price growth remained muted and below the midpoint of the RBNZ band at 1.7% and business confidence remains weak, at lowest level since September 2018. ANZ's commodity price index fell 2.4% year-on-year with weakness in both dairy prices and forestry.

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 one year in maturity as they offer superior relative returns as risks are weighted towards a lower rate profile. Liquidity is actively managed by ensuring a significant proportion of the fund is in readily marketable securities in high credit quality names and by staggering term deposit maturities.

The fund continued to outperform its benchmark returning 0.24% compared to 0.15% generated by the 90-Day Bank Bill index. A higher portfolio yield and longer duration position positively contributed to performance. Soft economic data releases, weakening global growth and increasing global trade tensions continue to point towards the RBNZ retaining its easing bias.

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

\$870.44m

Strategy Launch

October 2007

Compliance

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

Contact Us

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