

### Fund manager

Nikko Asset Management New Zealand Limited (Nikko AM).

Nikko AM is Asia's premier global asset manager. We actively manage over NZ\$4.8 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).

### Portfolio managers

**Fergus McDonald, Head of Bonds and Currency** – Fergus is responsible for the investment strategy and portfolio construction of Bond, Cash and Currency mandates. He has been actively involved in the New Zealand financial markets since 1981 and has considerable experience in developing and managing a diverse range of fixed interest and option portfolios.

**Ian Bellew, Fixed Income Manager** – Ian joined Nikko AM in 1998 and is responsible for the implementation of investment strategy and day to day management of the fixed income and option portfolios. Ian also contributes to team decision making by analysing economic information and identifying global and domestic investment trends.

### Fund launch

April 2014. A similar portfolio has been operated by Nikko AM since January 1992.

### Investment objective

The objective of the Fund is 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, expenses and taxes.

### Benchmark

S&P/NZX Bank Bills 90-Day Index

### Investment philosophy

Nikko AM'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'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 currently obtains investment exposures by investing into the Nikko AM Wholesale NZ Cash Fund, a wholesale unit trust managed by Nikko AM. The Nikko AM Wholesale NZ Cash Fund invests directly into capital market securities. Nikko AM seeks to enhance the return from the cash sector by the selective use of floating rate notes and short dated corporate debt.

### Structure and taxation

The Fund vehicle is a Unit Trust and Portfolio Investment Entity (PIE) which is priced daily. Unit holders elect their own Portfolio Investment Rate. Information is provided to the IRD and unit holders on an annual basis.

### PIE eligibility

Nikko AM may take any action it deems appropriate to ensure the Fund remains eligible to be a PIE. This includes the ability of Nikko AM to compulsorily withdraw a unit holder's units and pay the proceeds to that unit holder's nominated bank account.

### Distributions

Quarterly – last business days of March, June, September and December.

### Hedging policy

All assets are NZD denominated.

### Investment restrictions

Nikko AM Wholesale NZ Cash Fund – the wholesale unit trust that the Nikko AM NZ Cash Fund invests into.

- 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.

### Management fees and other charges

A management fee of 0.25% per annum calculated as a percentage of the gross asset value of the Fund will be calculated and deducted from the Fund. This fee is calculated daily and is payable to Nikko AM. The management fee may be reduced or waived at our discretion.

Nikko AM may recover expenses (including the Trustee fee) up to a maximum of 0.15% per annum from the Fund.

### Buy/sell spread

Nil

### Trustee

Public Trust

### Custodian

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

### Minimum investment

Initial investment \$5,000

Further investments \$1,000

The Manager may accept applications for investments below the minimum investment amount at its discretion.

### Applications

Applications for units proceed once value is confirmed in the Public Trust Application Account.

### Redemptions

Redemptions are available on a T+1 day basis.

## Nikko AM NZ Unit Trusts (Retail)

## Fund Summary

### Nikko AM NZ Cash Fund

31 January 2016

#### Performance

(NZD returns; before tax, after fees and expenses)

1 month	3 months	6 months	1 year
0.26%	0.79%	1.63%	3.58%
2 years (pa)	3 years (pa)	5 years (pa)	Inception (pa)*
n.a.	n.a.	n.a.	3.84%

\* June 2014

#### Distributions

cents per unit	Mar	Jun	Sep	Dec
2015	0.75	0.70	0.90	0.70
2014			0.70	0.50

#### Asset allocation

Governments	15.8%
NZ Registered Banks	77.9%
Local Authorities	1.6%
Corporates	4.7%

#### Credit rating profile

AAA	0.0%
AA	66.2%
A	33.8%

#### Top 5 issuers

Bank of New Zealand	16.8%
NZ Government	15.8%
Kiwibank Limited	14.6%
Westpac Banking Corp	12.7%
ANZ Bank	8.2%
<b>Number of Issuers</b>	<b>18</b>

#### Duration and yield

Duration	Fund 113 days	vs benchmark 45 days
Yield	Gross 3.48%	vs benchmark 2.75%
	Net 3.08%*	vs OCR 2.50%

\* After management fee and expenses

#### Commentary

The Cash Fund is a portfolio of high credit quality, low interest rate risk assets. The average credit rating is targeted around AA- S&P with the duration of the portfolio currently 113 days.

The short-end of the yield curve is inverted, with the 90-day interest rate higher than the 1-year rate. The 90-day rate was down 5 points to 2.70%, and 1-year swap down 16 points to 2.60%.

The Reserve Bank of New Zealand (RBNZ) kept the Official Cash Rate (OCR) unchanged at 2.50% at the January review. The statement around the review appeared to strengthen the easing bias, but since then Governor Wheeler has gone on the record and said that this appraisal was not correct. The speech specifically addressed the argument that low CPI inflation should result in a lower OCR, and stated that the Policy Target Agreement (PTA) has wider scope than just CPI Inflation targeting. Governor Wheeler stated "...the requirements in the PTA in respect of asset prices, financial stability and efficiency and volatility in output, interest rates and the exchange rate, mean that there is much to consider in determining monetary policy that extends well beyond the current level of headline inflation."

Unexpectedly the unemployment rate fell from 6% to 5.3% over the December quarter, wage growth however remains muted. Both business and consumer confidence indicators are high, but were high during the recent tightening cycle and did not flow through to inflation. Reduced drought risk, ongoing increases in migration, thriving tourism and a strong construction sector are all supportive of the economy.

The dairy sector remains weak. The most recent auction has seen a 10.4% decline in whole milk powder prices. Continued downward trend of the Global Dairy Trade auctions and highly leveraged farmer's present risks. The milk price forecast has recently been downgraded, but still requires a significant recovery in the GDT price to come to fruition.

Financial markets have been volatile over the start of 2016. This has been primarily driven by renewed concerns over China's growth. The outlook for global growth has been revised down, and expectations that the US Federal Reserve will continue to normalise monetary policy have been tapered. We expect monetary policy globally to remain supportive for some time. Oil prices continue to fall, with the price of Brent oil hitting a 12 year low.

We expect the RBNZ will hold the OCR at 2.50% over the near future. The risk outlook is skewed to the downside, and the RBNZ will respond via monetary policy if necessary.

We have a longer than benchmark duration, which should lead to continued strong performance as the Fund is invested to receive the benefit of higher income than the yield on 90-day Bank Bills. Highly rated short term fixed and floating rate securities remain in strong demand, however term deposits continue to offer attractive returns compared to other short term assets.

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**General Enquiries:** NZenquiries@nikkoam.com | +64 9 307 6363