

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 March 2016

Performance

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

| 1 month | 3 months | 6 months | 1 year |
|--------------|--------------|--------------|-----------------|
| 0.25% | 0.75% | 1.54% | 3.46% |
| 2 years (pa) | 3 years (pa) | 5 years (pa) | Inception (pa)* |
| n.a. | n.a. | n.a. | 3.76% |

* June 2014

Distributions

| cents per unit | Mar | Jun | Sep | Dec |
|----------------|------|------|------|------|
| 2016 | 1.00 | | | |
| 2015 | 0.75 | 0.70 | 0.90 | 0.70 |
| 2014 | | | 0.70 | 0.50 |

Asset allocation

| | |
|---------------------|-------|
| Governments | 10.5% |
| NZ Registered Banks | 80.2% |
| Local Authorities | 1.8% |
| Corporates | 7.5% |

Credit rating profile

| | |
|-----|-------|
| AAA | 0.0% |
| AA | 69.2% |
| A | 30.8% |

Top 5 issuers

| | |
|--------------------------|-----------|
| Bank of New Zealand | 20.7% |
| Kiwibank Limited | 13.6% |
| ANZ Bank | 10.9% |
| Westpac Banking Corp | 10.9% |
| NZ Government | 10.5% |
| Number of Issuers | 21 |

Duration and yield

| | | |
|----------|---------------|----------------------|
| Duration | Fund 125 days | vs benchmark 45 days |
| Yield | Gross 3.35% | vs benchmark 2.31% |
| | Net 2.95%* | vs OCR 2.25% |

* 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 125 days.

Short term rates continue to move lower with the 90-day Bank Bill Rate declining from 2.56% to 2.34%, the one year swap rate followed, falling from 2.43% to 2.20% by the end of March.

The RBNZ surprised markets by cutting the Official Cash Rate by 25 basis points to 2.25% at the March Monetary Policy Review (MPR) – the fifth easing this cycle. While further rate cuts had been widely expected, the RBNZ surprised the market with its timing, as Governor Wheeler had appeared to reduce easing expectations in his February speech. The move by the RBNZ, and projections of further easing, represented a renewed determination to get inflation higher. A temporary fall in the NZ dollar ensued, but this was soon washed out by global forces and the NZ TWI ended the month higher than pre-cut levels. The RBNZ also got less interest rate traction than it desired, with the average cut to the floating mortgage rates by the four major banks equating to just 12.5 basis points.

The RBNZ highlighted deteriorating global growth since their last policy statement in December 2015, especially weaker growth in China, emerging markets and slower growth in Europe. Domestically, the impact upon economic growth from the weaker dairy sector is being offset by strong inward migration, tourism, construction activity and accommodative monetary policy. This should ensure an acceptable level of growth occurs in the next few years, probably in the 2.5% to 3.0% range.

The RBNZ has indicated it is prepared to cut interest rates further if required and markets are anticipating a cash rate of around 1.75% by the end of 2016.

The Fund is well positioned for further falls in rates. The Fund's duration is longer than the 90-day Bank Bill Index and should be able to maintain a higher return than benchmark in the months ahead.

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