

Nikko AM NZ Unit Trusts (Retail)

Fund Summary

Nikko AM NZ Cash Fund

30 April 2016

Fund manager

Nikko Asset Management New Zealand Limited (Nikko AM).

Nikko AM is Asia's premier global asset manager. We actively manage over NZ\$4.9 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.

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Performance

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

1 month	3 months	6 months	1 year
0.22%	0.71%	1.50%	3.35%
2 years (pa)	3 years (pa)	5 years (pa)	Inception (pa)*
n.a.	n.a.	n.a.	3.71%

* 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	10.3%
NZ Registered Banks	80.8%
Local Authorities	2.3%
Corporates	6.6%

Credit rating profile

AAA	0.1%
AA	69.3%
A	30.6%

Top 5 issuers

Bank of New Zealand	19.8%
ANZ Bank	13.1%
Kiwibank Limited	12.7%
Westpac Banking Corp	10.8%
NZ Government	10.2%
Number of Issuers	21

Duration and yield

Duration	Fund 105 days	vs benchmark 45 days
Yield	Gross 3.23%	vs benchmark 2.32%
	Net 2.83%*	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 105 days.

Short term interest rates moved higher over April, however the yield curve remains inverted. The 90-day rate was up 7 points to 2.41%, and 1-year swap up 8 points to 2.27%.

The RBNZ left the OCR unchanged at 2.25% at the April review. The RBNZ kept an easing bias in their statement, saying "further policy easing may be required to ensure average inflation settles near the middle of the target band". In his statement Governor Wheeler reiterated that headline inflation was low because of oil and other imported prices, but that core inflation was within the target range. This was read as less dovish than expected by the market and short term rates moved higher, so too did the currency which jumped 1.5 cents against the USD and traded through US 70 cents on the day.

The outlook for global growth has deteriorated in recent months, mainly led by the slowdown in China. The financial market volatility that we saw at the start of the year has subsided, and markets are focused on policy setting from Central Banks. The domestic economy is in reasonable shape – the downturn in the dairy sector has been offset by strong tourism, migration, service sector activity and accommodative monetary conditions. After what appeared to be a period of stabilisation, the housing market in Auckland looks to have picked up again, and price strength is broad-based. Data related to foreign investor activity due is to be released, and Prime Minister John Key has introduced the idea of a land tax on foreign investors. The RBNZ still sees the housing market as a financial stability issue. It should be remembered that one of the RBNZs tasks is to limit financial stability risks. The Financial Stability Report is due in May and macro prudential policy developments will likely impact on the RBNZ's future monetary policy decisions. The RBNZ are unlikely to want to cut interest rates further, fearful that it will stoke the housing market. However the only clear way to get a lower NZD and boost inflation is to cut rates. This is the RBNZ's dilemma. Further, it is now especially difficult for the RBNZ not to cut the OCR given the recent and most likely further interest rate cuts in Australia.

The Fund's duration is positioned longer than benchmark 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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