

### Fund manager

Nikko Asset Management New Zealand Limited (Nikko AM).

Nikko AM is Asia's premier global asset manager. We actively manage NZ\$5.0 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.

**Performance**

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

1 month	3 months	6 months	1 year
0.26%	0.73%	1.49%	3.28%
2 years (pa)	3 years (pa)	5 years (pa)	Inception (pa)*
n.a.	n.a.	n.a.	3.69%

\* 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	10.7%
NZ Registered Banks	78.3%
Local Authorities	3.9%
Corporates	7.1%

**Credit rating profile**

AAA	0.1%
AA	71.0%
A	28.9%

**Top 5 issuers**

Bank of New Zealand	19.9%
Kiwibank Limited	12.6%
Westpac Banking Corp	11.3%
ANZ Bank	10.8%
NZ Government	10.7%
<b>Number of Issuers</b>	<b>21</b>

**Duration and yield**

Duration	Fund 106 days	vs benchmark 45 days
Yield	Gross 3.24%	vs benchmark 2.32%
	Net 2.89%*	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 106 days.

Short term interest rates were little changed over May and the yield curve remains inverted. The 90-day rate closed May up half a point to 2.42% and the 1-year swap was down 1 point to 2.26%.

The RBNZ left the Official Cash Rate (OCR) unchanged at 2.25% at its most recent review on 9 June 2016 while keeping an easing bias in their statement, saying "further policy easing may be required to ensure that future average inflation settles near the middle of the target range". The next OCR review and a full Monetary Policy Statement (MPS) will be on 11 August 2016.

The economic backdrop does not appear to be crying out for a cut to the OCR. Tourism, the service sector, agriculture (excluding dairy), migration and construction are all supportive of economic growth. Sentiment around the global economy seems to have improved. We still see challenges with China, especially around credit growth, and while we continue to monitor this as a potential driver of economic activity, we do not see this as an imminent risk. Global markets appear consistent with this assessment, volatility is down and the focus is now soundly on policy setting from central banks.

The housing market continues its upwards trajectory. Recent data releases point to investor activity as being the main driver of the market. Credit growth is also strong, as households have taken on debt on the back of increasing house values. The RBNZ and Finance Minister Bill English are in talks on new macro-prudential tools – at this stage it looks like some kind of income ratio test is being explored. The political ramification of this cannot be understated and one would think any new macro prudential tools would be well considered and targeted, especially a year before an election. Any such measure would give the RBNZ more flexibility when it comes to the OCR, as the housing market above all else stands in the way of an OCR cut.

The Cash Fund has 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