nikko am
Nikko Asset Management

NIKKO AM NZ CASH FUND

Monthly Fact Sheet 30 June 2016

Investment objective

The objective of the Fund is to construct a portfolio of permitted 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

Bloomberg NZBond Bank Bill Index (from 1 July 2016)

Fund description

The Fund aims to provide investors with regular income by constructing an actively managed investment portfolio of short term deposits and bonds whilst preserving capital value.

The Fund gains its investment exposures by investing into the Nikko AM Wholesale NZ Cash Fund which is managed by the Nikko AM NZ Fixed Income team.

Distributions

Quarterly. Last business days of March, June, September and December.

Management fees and other charges

A management fee of 0.25% per annum calculated as a percentage of the net asset value of the Fund will be calculated and deducted from the Fund.

Nikko AM may also recover expenses (including the Trustee fee) from the Fund up to a maximum of 0.15% per annum of the Fund's net asset value. Estimate of expenses as at 1 July 2016 are 0.10% per annum.

Buy/sell spread

Nil

Investment restrictions

Nikko AM Wholesale NZ Cash Fund

- 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 counterparties must have A or better credit rating and all derivative exposure shall be covered by cash or physical holdings.

Refer to the SIPO for full details of permitted investments and restrictions.

Performance

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

1 month	3 months	6 months	1 year
0.22%	0.69%	1.44%	3.17%

2 years (pa)	3 years (pa)	5 years (pa)	Inception (pa)*
3.65%	na	na	3.64%

* June 2014

Distributions

Cents per unit	Mar	Jun	Sep	Dec
2016	1.00	0.55		
2015	0.75	0.70	0.90	0.70
2014			0.70	0.50

Asset allocation (% of fund)

NZ Government, Government Department or Government Guarantees	7.8%
NZ registered banks	80.3%
Local authorities	4.6%
Corporate bonds	7.3%

Credit rating profile

S&P rating	% portfolio
AAA	0.0%
AA	73.0%
A	27.0%

Top 5 issuers (% of fund)

Bank of New Zealand	23%
Kiwibank	14%
ANZ Bank NZ	12%
Westpac Banking Corporation	10%
ASB Bank Limited	8%

Duration and yield

Duration	Fund 113 days versus benchmark 45 days
Yield	Fund (gross) 3.15% versus benchmark 2.36% Fund (net) 2.85%* versus OCR 2.25%

* After management fee and expenses

Commentary

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

Short term interest changed very little over June, and the yield curve remains inverted. The 90-day rate closed flat at 2.42% and the 1-year swap was down 1 point to 2.25%.

The RBNZ left the Official Cash Rate (OCR) unchanged at 2.25% at the June Monetary Policy Statement (MPS) review. The easing bias was maintained, and the forecast for the 90-day bills track implied a further cut, but the statement was seen as less dovish. In its statement the RBNZ noted that domestic activity continues to be supported by strong net migration, construction, tourism and accommodative monetary conditions. The dairy sector is a moderating influence, with export prices below break-even levels for most farmers. The assessment was that a cut may be warranted at some stage, but not right at the moment and 2.25% may potentially be the bottom of this easing cycle. The NZD closed the day almost 1 cent higher.

The RBNZ also noted improved global economic sentiment, but since the MPS we have had the Brexit vote and global sentiment has deteriorated and financial market volatility has returned. Our assessment is that it is too early to say what the practical implications of Brexit are for New Zealand. Article 50, to start negotiations to leave the EU, hasn't yet been triggered, and no road map has been laid out. We will continue to watch developments as they occur, with particular interest on European banks share prices, and levels of capital and funding costs, as these issues may flow though to funding costs for Australasian banks.

It has been clear for some time that although the RBNZ would like the NZD lower it is reluctant to cut rates in the face of an ever strengthening housing market. Recent data points to investor activity being the main driver of the market. However credit growth is also strong, as households have taken on debt on the back of increasing house values. This appears to be, above all else, the barrier standing in the way of further interest rate cuts. John Key has recently announced a $1 billion fund to help councils in certain areas fund the infrastructure requirements of residential property development. He has also said the Government has given the go ahead for the RBNZ to expand its macro prudential policy, and expects that to target property investors, and for the RBNZ to take action sooner rather than later. We will be watching this closely as to the implications to short term rates.

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.