nikko am
Nikko Asset Management

NIKKO AM NZ CASH FUND

Monthly Fact Sheet 31 July 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
0.26%	0.73%	1.44%	3.09%

2 years (pa)	3 years (pa)	5 years (pa)	Inception (pa)*
3.60%	na	na	3.62%

* 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	8.9%
NZ registered banks	80.4%
Local authorities	2.7%
Corporate bonds	8.0%

Credit rating profile

S&P rating	% portfolio
AAA	0.7%
AA	72.8%
A	26.5%

Top 5 issuers (% of fund)

Bank of New Zealand	25%
Kiwibank	15%
ASB Bank Limited	10%
Westpac Banking Corporation	9%
Government	9%

Duration and yield

Duration	Fund 110 days versus benchmark 45 days
Yield	Fund (gross) 3.10% versus benchmark 2.28% Fund (net) 2.75%* 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.

Short term interest rates fell over the month and the yield curve remains inverted. The 90-day rate closed down 14 basis points to 2.28%, 1-year swap was down 16 basis points to 2.09%.

The RBNZ released an impromptu economic update during July, and was decidedly dovish. "Prospects for growth in the global economy have diminished despite very stimulatory monetary policy and low oil prices. Significant downside risks remain. Financial market volatility increased following the UK referendum and long-term interest rates have fallen." The special announcement was about increased concern with the strength of the NZ dollar, and signalled to markets that currency levels and pricing for cuts was not in line with future policy direction. Our view for some time has been that the New Zealand economy is doing well, and that rate cuts appear to be at odds with domestic economic activity. Strong net migration, construction, tourism and agriculture ex-dairy, are all supportive. However the RBNZ appears to have taken the line that lower interest rates will address the strength of the NZ dollar and assist in getting inflation back into the RBNZ's 1-3% target range.

Earlier in July the RBNZ had begun consultation on new nationwide investor LVR mortgage lending restriction. Governor Wheeler stated that the banking system is heavily exposed to the property market with residential mortgages making up 55% of banking system assets. Investor lending has been increasing rapidly and is a significant contributing factor to the current market strength. The proposed restrictions recognise the higher risks associated with such lending. The proposal includes restricting no more than 5% of bank lending to residential property investors across New Zealand with an LVR of greater than 60% (i.e. a deposit of less than 40%). The RBNZ has expressed an expectation that the banks will put these new restrictions in with immediate effect.

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 relative to the 90-day Bank Bills Index. We have been buying high credit quality commercial paper as a source of added liquidity and portfolio duration, as we see risk that the curve rallies further should the RBNZ be more aggressive than market pricing at the MPS. 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. Recently margins we have received for 12 month term deposits have been the most attractive and fit our interest rate view.

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