nikko am
Nikko Asset Management

NIKKO AM NZ CASH FUND

Monthly Fact Sheet 31 August 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 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. As at the time of publication these expenses are estimated to be 0.08% 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%	0.74%	1.47%	3.05%

2 years (pa)	3 years (pa)	5 years (pa)	Inception (pa)*
3.56%	na	na	3.60%

* 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 Guaranteed	10.1%
NZ registered banks	81.1%
Local authorities	1.5%
Corporate bonds	7.3%

Credit rating profile

S&P rating	% portfolio
AAA	0.7%
AA	73.3%
A	26.0%

Top 5 issuers (% of fund)

Bank of New Zealand	25%
Kiwibank	15%
Westpac Banking Corporation	11%
Government	10%
ASB Bank Limited	9%

Duration and yield

Duration	Fund 101 days versus benchmark 45 days
Yield	Fund (gross) 3.04% versus benchmark 2.15% Fund (net) 2.69%* versus OCR 2.00%

* 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 and the duration of the portfolio is currently 101 days.

Short term interest rates fell over the month.The 90-day rate closed down 3 basis points to 2.25%, 1-year swap was down 4 basis points to 2.05%.

The RBNZ cut the Official Cash Rate (OCR) by 25 basis points to a record low of 2% in August. The RBNZ noted that despite unprecedented levels of monetary stimulus, global growth remains weak. Uncertainly around political risk, commodity prices and the prospect for global growth is helping keep interest rates at record lows. This is particularly unhelpful from the RBNZ's point of view as global rates relative to New Zealand are keeping the exchange rate high. In August RBNZ Governor Wheeler gave a speech on the challenges facing monetary policy. In the speech he talked about the conflict between low CPI inflation, high relative interest rates in New Zealand and the high NZD with strong New Zealand domestic growth, capacity issues and persistently high house price inflation. The question was also asked how fiscal policy could support monetary policy. This question is being asked more often, locally and across international markets, and is recognition that monetary stimulus can only do so much in times of record low rates, and that a fiscal response may have a role to play in generating global growth and inflation.

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, agriculture ex-dairy, strong labour markets and confidence are all supportive. However the RBNZ appears to have taken the line that lower interest rates will address the strength of the NZD and assist in getting inflation back into the Bank's 1-3% target range.

The market is now pricing an 80% chance of a further 25 basis point cut by November. The risk is that the RBNZ is more aggressive, cutting rates, possibly earlier, and signalling further cuts to come in an attempt to address the NZD and low inflation.

The Fund should expect continued strong performance as it is invested to receive higher income than the yield of the 90 Day Bank Bills Index. We have been buying high credit quality commercial paper as a source of added liquidity and portfolio duration. The margins on 12 month term deposits remain attractive. Highly rated short term fixed and floating rate securities remain in strong demand, and we have been active here at good margins considering the market supply and demand dynamics. This has all been of benefit to the portfolio as rates have continued to go lower.