

NIKKO AM NZ CASH FUND

Monthly Fact Sheet

31 October 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 Pools). 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
0.23%	0.73%	1.46%	2.98%
2 years (pa)	3 years (pa)	5 years (pa)	Inception (pa)*
3.43%	n/a	n/a	3.50%

* June 2014

Distributions

Cents per unit	Mar	Jun	Sep	Dec
2016	1.00	0.55	0.50	
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	10.2%
NZ registered banks	83.2%
Local authorities	2.4%
Corporate bonds & SOEs	4.2%

Credit rating profile

S&P rating	% portfolio
AAA	0.7%
AA	72.5%
A	26.8%

Top 5 issuers (% of fund)

Bank of New Zealand	17.6%
Westpac Banking Corp	16.3%
Kiwibank	16.2%
ASB Bank Limited	12.5%
ANZ Bank	11.5%
Number of issuers in portfolio	20

Duration and yield

Duration	Fund 106 days versus benchmark 45 days
Yield	Fund (gross) 2.99% versus benchmark 2.10% Fund (net) 2.66%* versus OCR 2.00%

* After management fee and expenses

Commentary

Over the month of October the Fund returned 0.23% (net of fees), compared to the Benchmark return of 0.19%. 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 106 days.

The short end of the yield curve remains inverted which indicates the market is expecting lower rates in the months ahead. Over September the 90-day rate closed down 12 points to 2.13%, 1-year swap was up 2 points to 2.07%.

The Official Cash Rate (OCR) is at an all-time low of 2%. Reserve Bank Assistant Governor John McDermott gave a speech on "Understanding Low Inflation in New Zealand." He spoke about tradable inflation, which has been negative due to the high NZD and low inflation in our import prices. Strong migration and labour supply has also been a factor in dampening inflation, while allowing New Zealand to grow at a robust pace. The RBNZ maintains its strong easing bias, and continues to downplay recent strong domestic economic indicators and focuses on the downside risks. CPI inflation came in at 0.3% for the September quarter and 0.4% annually.

At the end of October the market was pricing in an 85% chance of a 25 basis point cut at the November Monetary Policy Statement. 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, but given the strength of the RBNZ's communication regarding inflation and inflation expectations we see the likelihood of a further cut as very high.

Global interest rates have been heading higher, and global central banks seem to be stepping away from further monetary easing, albeit cautiously. The wording of the RBNZ's upcoming Monetary Policy Statement and the forecast for the 90-day bill track will be crucial for the RBNZ to get the desirable market reaction. Given domestic economic activity it would be difficult in our view to justify and forecast any further cut to the short term rates. The RBNZ also has the US election, and the US Fed decision to contend with. We will continue to monitor these as to their impact on the New Zealand market and the Cash Fund. The low interest rate and credit risk nature of the Cash Fund should mean that it is protected from any negative market reactions to these events.

The Cash Fund has a higher yield and a longer duration than the 90-day Bank Bill index. The higher yield should lead to continued strong performance of the Fund. We have been buying high credit quality commercial paper as a source of added liquidity and portfolio duration. 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 Fund as rates have continued to go lower.

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