

NIKKO AM NZ CASH FUND

Monthly Fact Sheet

31 January 2017



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 Pooors). 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 |
|--------------|--------------|--------------|-----------------|
| 0.24% | 0.68% | 1.41% | 2.87% |
| 2 years (pa) | 3 years (pa) | 5 years (pa) | Inception (pa)* |
| 3.23% | | | 3.43% |

* June 2014

Distributions

| Cents per unit | Mar | Jun | Sep | Dec |
|----------------|------|------|------|------|
| 2016 | 1.00 | 0.55 | 0.50 | 0.65 |
| 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 | 10.9% |
| NZ registered banks | 86.4% |
| Local authorities | 1.1% |
| Corporate bonds & SOEs | 1.6% |

Credit quality

| | |
|-----|-------|
| AAA | 0.7% |
| AA | 70.9% |
| A | 28.4% |

Top 5 issuers (% of fund)

| | |
|---------------------------------------|-----------|
| Westpac Banking Corporation | 21.5% |
| Kiwibank | 17.2% |
| ASB Bank Limited | 14.3% |
| Bank of New Zealand | 12.2% |
| NZ Government | 9.6% |
| Number of issuers in portfolio | 15 |

Duration and yield

| | |
|----------|---|
| Duration | Fund 110 days versus benchmark 45 days |
| Yield | Fund (gross) 3.05% versus benchmark 1.89% |
| | Fund (net) 2.72%* versus OCR 1.88% |

* After management fee and expenses

Commentary

Over the month of January the Fund returned 0.24% (net of fees), compared to the 90-day Bank Bill Index return of 0.17%. 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 110 days.

The short end of the yield curve is upward sloping, indicating the market believes the rate cutting cycle has likely finished for now with The Official Cash Rate at an all-time low of 1.75%.

Over January the 90-day rate was unchanged at 2.00% and the 1-year swap was down 3 points to 2.15%.

December quarter CPI was published in January and annual inflation is at 1.3%, the highest rate since June 2014. National house prices seem to be easing off highs, but are still at elevated levels.

Migration is still very strong, and barring policy changes in election year it is hard to see these levels falling sharply as New Zealand remains an attractive place for migrants. Consumer and business confidence remains high. We need to think about conflicting factors to all of this when thinking about the RBNZ potential for hiking the OCR. The NZD is still at elevated levels, and will keep tradable inflation down. Deflationary factors locally and abroad are still present. Banks have lifted mortgage rates, providing an effective tightening to the credit markets. Unemployment unexpectedly increased by 0.3% to 5.2%, and wage growth remains at a low level of 1.6%. The most recent statement from the US Fed' seems to suggest that they will be happy to hold their cash rates, as the US Dollar and longer yields have already risen. The NZ market is pricing a 40% chance of a 25 basis point hike by September. At this stage we are not expecting a change to the OCR this year, but the balance of risk would suggest that there is potential for hikes to be bought forward, and it seems the market is just looking for an excuse to price this in.

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 have become more readily available lately, at attractive levels.

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