

NIKKO AM NZ CASH FUND

Monthly Fact Sheet

31 May 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
0.23%	0.70%	1.38%	2.83%
2 years (pa)	3 years (pa)	5 years (pa)	Inception (pa)*
3.05%	3.36%		3.36%

* June 2014

Distributions

Cents per unit	Mar	Jun	Sep	Dec
2017	0.65			
2016	1.00	0.55	0.50	0.65
2015	0.75	0.70	0.90	0.70

Asset allocation (% of fund)

NZ Government, Government Department or Government Guaranteed	11.8%
NZ registered banks	84.6%
Local authorities	2.4%
Corporate bonds & SOEs	1.2%

Credit quality

AAA	1.8%
AA	68.7%
A	29.5%

Top 5 issuers (% of fund)

Westpac Banking Corporation	20.7%
Kiwibank	17.2%
ASB	14.9%
ANZ Bank	12.4%
NZ Government Departments	11.8%
Number of issuers in portfolio	18

Duration and yield

Duration	Fund 117 days versus benchmark 45 days
Yield	Fund (gross) 2.92% versus benchmark 1.88%
	Fund (net) 2.59%* versus OCR 1.75%

* After management fee and expenses

Fund commentary

The Fund outperformed its benchmark over the month. The higher yield was the main contributor with the longer than benchmark duration also adding value. The higher yield should lead to continued strong performance of the Fund. Margins on 12-month term deposits remain attractive. Margins on fixed and floating rate bonds are attractive when looking at global comparisons, and we have been taking advantage of this recently.

Market commentary

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 RBNZ leaving the Official Cash Rate at an all-time low of 1.75% at the May Monetary Policy Statement.

Over May the 90-day bank bill and 1-year swap rate were both down 5 basis points at 1.95% and 2.02% respectively.

Economic data released during the year up to May show an economy that is performing well and has momentum.

Employment growth (job creation) is outstripping labour force growth (migration), and the unemployment rate has fallen to 4.9%, the lowest since 2008. While wage growth has been slow, rates below 5% suggest that there should be pressure on wages beginning to come through. Net migration is still at all-time highs. House prices have flattened out, particularly in Auckland. The dairy sector is well and truly on its way to recovery with strong Global Dairy Trade auctions meaning farm gate milk prices have increased from \$3.90 last season to \$6.15 for 2016/17. This all leads to maintaining relatively high consumer and business confidence levels.

However, at the May MPS the RBNZ Governor Wheeler stated that monetary policy will remain accommodative for some time, and went on to say that numerous uncertainties remain and that policy may need to adjust accordingly. The RBNZ forecast suggest that the OCR is on hold until the start of 2019. The market is pricing a 50% chance of a hike by March 2018 - we tend to agree with this assessment. Global monetary policy, the level of the NZ Dollar and the impact of tradable inflation, CPI inflation, the housing market, and the maturity of this economic cycle will all help determine the direction, and extent of the next move. We expect the next move to be up, and are of the view that the next tightening of monetary policy will not have to go as far as it may have in the past to have the same effect of balancing the economy.

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