

Nikko AM Wholesale NZ Cash Fund

Fund manager

Nikko Asset Management New Zealand Limited (Nikko AM).

Nikko AM is Asia's premier global asset manager. In New Zealand we actively manage NZ\$4 billion of investments for a diverse group of clients, including superannuation schemes, charitable trusts, KiwiSaver scheme providers, corporations and local government along with providing services to financial intermediaries through wrap platforms.

We offer investment management services in domestic sectors (equities, fixed interest and cash) through our Auckland-based investment team and employ offshore managers to manage global sectors (global equities, global bonds and alternative investments).

Fund launch

1 October 2007. A similar portfolio has been operated by Nikko AM since January 1992.

Investment objective

Over a rolling three year period to target a return which exceeds the benchmark by 0.20% per annum, before fees.

Benchmark

S&P/NZX Bank Bills 90-Day Index

Investment philosophy

Nikko AM's focus on duration management and achieving a high running yield on the portfolio enables us to deliver an investment outcome that has a high probability of out-performing the benchmark.

Nikko AM's decision-making process revolves around interpreting and forecasting possible changes to monetary policy in the months ahead and quantifying the likely impact on portfolio performance.

The Fund invests directly into capital market securities. We seek to enhance the return from the cash sector by the selective use of floating rate notes and short dated corporate debt.

Investment guidelines

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 counter parties must have A or better credit rating and all derivative exposure shall be covered by cash or physical holdings.

For full details see investment mandate.

Structure and taxation

The Fund vehicle is a Unit Trust and Portfolio Investment Entity (PIE) which is priced daily. Unit holders elect their own Portfolio Investor Rate. Information is provided to the IRD and unit holders on an annual basis.

Distributions

Quarterly – last day of March, June, September and December

Hedging policy

All assets are NZD denominated

Management fees and other charges

Investment management fees will be negotiated separately with each investor and invoiced outside the Fund.

All Fund statutory and operating costs will be met directly by the Manager.

Buy/sell spread

Nil

Trustee

Public Trust.

Custodian

Public Trust as legal custodian, BNP Paribas Fund Services Australasia Pty Limited delegated as functional custodian.

Selected investors only

Participation in the Fund is limited to persons or entities who are New Zealand resident, and:

- (a) whose principal business is the investment of money; or
- (b) who, in the ordinary course of and for the purposes of their business, habitually invest money;

and, consequently (or for other reasons) do not constitute "the public" for the purposes of the Securities Act 1978 (**Exempt Person**). Nikko AM will not therefore be required to produce a registered prospectus or an investment statement in relation to the proposed investment (such documents otherwise being required were this offer to be made to persons or entities that are not Exempt Persons), and such documents will not be produced accordingly. Investors in the Fund will be required to acknowledge their status as an Exempt Person as part of their subscription in the Fund. Investors in the Fund will also be required to undertake to Nikko AM that any transfers of interests in the Fund will only be to Exempt Persons.

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Performance (NZD gross returns)

	Fund %	Benchmark %	Excess %
1 month	0.30	0.24	0.06
3 months	0.90	0.76	0.15
6 months	1.85	1.50	0.35
1 year	4.03	3.34	0.70
2 years (pa)	4.14	3.38	0.75
3 years (pa)	4.08	3.15	0.93
5 years (pa)	4.07	3.00	1.07
10 years (pa)	5.53	4.57	0.96

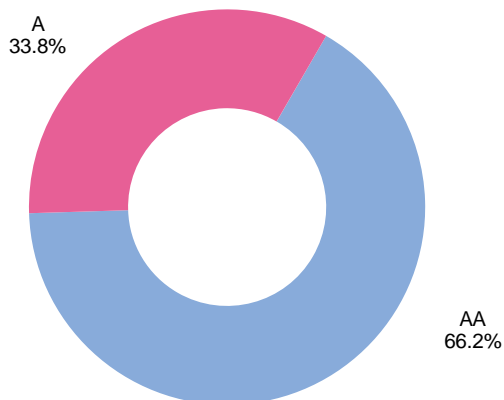
Fund size

\$668 million

Duration and yield

Duration	Fund 113 days	vs benchmark 45 days
Yield	Fund 3.48%	vs benchmark 2.61%

Credit quality



Exposures (% of fund)

Governments & SOE	15.8
NZ Registered Banks	77.9
Local Authorities	1.6
Corporates	4.7

Top 5 issuers (% of fund)

Bank of New Zealand	16.8
NZ Government	15.8
Kiwi Bank Ltd	14.6
Westpac Banking Corp	12.7
ANZ Bank	8.2

Number of issuers in portfolio **18**

Commentary

The Cash Fund is a portfolio of high credit quality, low interest rate risk assets. The average credit rating is targeted around AA- S&P with the duration of the portfolio currently 113 days.

The short-end of the yield curve is inverted, with the 90-day interest rate higher than the 1-year rate. The 90-day rate was down 5 points to 2.70%, and 1-year swap down 16 points to 2.60%.

The Reserve Bank of New Zealand (RBNZ) kept the Official Cash Rate (OCR) unchanged at 2.50% at the January review. The statement around the review appeared to strengthen the easing bias, but since then Governor Wheeler has gone on the record and said that this appraisal was not correct. The speech specifically addressed the argument that low CPI inflation should result in a lower OCR, and stated that the Policy Target Agreement (PTA) has wider scope than just CPI Inflation targeting. Governor Wheeler stated "...the requirements in the PTA in respect of asset prices, financial stability and efficiency and volatility in output, interest rates and the exchange rate, mean that there is much to consider in determining monetary policy that extends well beyond the current level of headline inflation."

Unexpectedly the unemployment rate fell from 6% to 5.3% over the December quarter, wage growth however remains muted. Both business and consumer confidence indicators are high, but were high during the recent tightening cycle and did not flow through to inflation. Reduced drought risk, ongoing increases in migration, thriving tourism and a strong construction sector are all supportive of the economy.

The dairy sector remains weak. The most recent auction has seen a 10.4% decline in whole milk powder prices. Continued downward trend of the Global Dairy Trade auctions and highly leveraged farmer's present risks. The milk price forecast has recently been downgraded, but still requires a significant recovery in the GDT price to come to fruition.

Financial markets have been volatile over the start of 2016. This has been primarily driven by renewed concerns over China's growth. The outlook for global growth has been revised down, and expectations that the US Federal Reserve will continue to normalise monetary policy have been tapered. We expect monetary policy globally to remain supportive for some time. Oil prices continue to fall, with the price of Brent oil hitting a 12 year low.

We expect the RBNZ will hold the OCR at 2.50% over the near future. The risk outlook is skewed to the downside, and the RBNZ will respond via monetary policy if necessary.

We have 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 on 90-day Bank Bills. 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.

Compliance

The Fund complied with its investment mandate during the month