

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\$4.8 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 Poors). 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	0.26	0.19	0.07
3 months	0.78	0.66	0.12
6 months	1.69	1.42	0.27
1 year	3.78	3.10	0.67
2 years (pa)	4.10	3.37	0.73
3 years (pa)	4.00	3.15	0.85
5 years (pa)	4.03	2.98	1.04
10 years (pa)	5.41	4.45	0.96

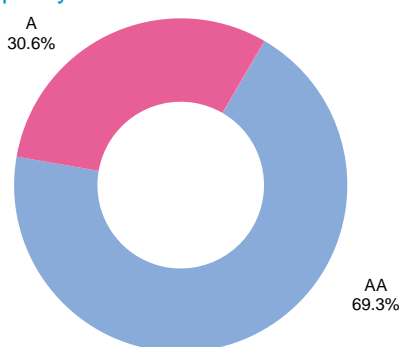
Fund size

\$699 million

Duration and yield

Duration	Fund 105 days	vs benchmark 45 days
Yield	Fund 3.23%	vs benchmark 2.33%

Credit quality



Exposures (% of fund)

Governments & SOE	10.3
NZ Registered Banks	80.8
Local Authorities	2.3
Corporates	6.6

Top 5 issuers (% of fund)

Bank of New Zealand	19.8
ANZ Bank	13.1
Kiwi Bank	12.7
Westpac Banking Corp	10.8
NZ Government	10.2

Number of issuers in portfolio **19**

Commentary

The Fund returned 0.26% over the month, compared to the index 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 and the current duration of the portfolio is 105 days.

Short term interest rates moved higher over April, however the yield curve remains inverted. The 90-day rate was up 7 points to 2.41%, and 1-year swap up 8 points to 2.27%.

The RBNZ left the OCR unchanged at 2.25% at the April review. The RBNZ kept an easing bias in their statement, saying "Further policy easing may be required to ensure average inflation settles near the middle of the target band". In his statement Governor Wheeler reiterated that headline inflation was low because of oil and other imported prices, but that core inflation was within the target range. This was read as less dovish than expected by the market and short term rates moved higher, so too did the currency which jumped 1.5 cents against the USD and traded through US 70 cents on the day.

The outlook for global growth has deteriorated in recent months, mainly lead by the slowdown in China. The financial market volatility that we saw at the start of the year has subsided, and markets are focused on policy setting from Central Banks. The domestic economy is in reasonable shape. The downturn in the dairy sector has been offset by strong tourism, migration, service sector activity and accommodative monetary conditions. After what appeared to be a period of stabilisation, the housing market in Auckland looks to have picked up again, and price strength is broad based. We have data related to foreign investor activity due to be released shortly, and Prime Minister John Key has introduced the idea of a land tax on foreign investors. The RBNZ still sees the housing market as a financial stability issue, it should be remembered that one of the RBNZs tasks is to limit financial stability risks. The Financial Stability Report is due in May and macro prudential policy developments will likely impact on the RBNZs future monetary policy decisions. The RBNZ will not want to cut interest rates further, fearful that it will stoke the housing market. However the only clear way to get a lower NZD and boost inflation is to cut rates. This is the RBNZs dilemma. Further, it is now especially difficult for the RBNZ not to cut the Official Cash Rate given the recent and most likely further future interest rate cuts in Australia.

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.