

## 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 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.

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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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**Nikko AM Wholesale NZ Cash Fund**

Performance (NZD gross returns)

	Fund %	Benchmark %	Excess %
1 month	0.27	0.21	0.06
<b>3 months</b>	<b>0.81</b>	<b>0.63</b>	<b>0.18</b>
6 months	1.67	1.37	0.30
<b>1 year</b>	<b>3.66</b>	<b>3.01</b>	<b>0.65</b>
2 years (pa)	4.05	3.34	0.72
<b>3 years (pa)</b>	<b>3.99</b>	<b>3.15</b>	<b>0.84</b>
5 years (pa)	4.01	2.98	1.03
<b>10 years (pa)</b>	<b>5.37</b>	<b>4.40</b>	<b>0.97</b>

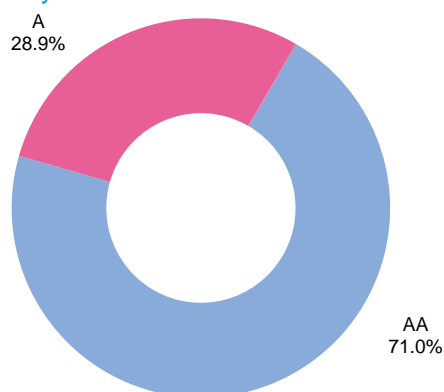
Fund size

\$695 million

Duration and yield

Duration	Fund 106 days	vs benchmark 45 days
Yield	Fund 3.24%	vs benchmark 2.32%

Credit quality



Exposures (% of fund)

Governments	10.7%
NZ Registered Banks	78.3%
Local Authorities	3.9%
Corporates	7.1%

Top 5 issuers (% of fund)

Bank of New Zealand	19.9%
Kiwibank Limited	12.6%
Westpac Banking Corp	11.3%
ANZ Bank	10.8%
NZ Government	10.7%

Number of issuers in portfolio

21

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 106 days.

Short term interest rates were little changed over May and the yield curve remains inverted. The 90-day rate closed May up half a point to 2.42% and the 1-year swap was down 1 point to 2.26%.

The RBNZ left the Official Cash Rate (OCR) unchanged at 2.25% at its most recent review on 9 June 2016 while keeping an easing bias in their statement, saying "further policy easing may be required to ensure that future average inflation settles near the middle of the target range". The next OCR review and a full Monetary Policy Statement (MPS) will be on 11 August 2016. The market is pricing a 25% chance of a 25 basis point cut.

The economic backdrop does not appear to be crying out for a cut to the OCR. Tourism, the service sector, agriculture (excluding dairy), migration and construction are all supportive of economic growth. Sentiment around the global economy seems to have improved. We still see challenges with China, especially around credit growth, and while we continue to monitor this as a potential driver of economic activity, we do not see this as an imminent risk scenario. Global markets agree with this assessment, volatility is down and the focus is now soundly on policy setting from central banks. The US Federal Reserve is due to make a cash rate assessment in June. For a time it appeared they may hike rates, but recent weak employment data indicates that they may hold. The NZD rallied 1 cent of the back of this.

The housing market continues its upwards trajectory. Recent data releases point to investor activity as being the main driver of the market. Credit growth is also strong, as households have taken on debt on the back of increasing house values. The RBNZ and Finance Minister Bill English are in talks on new macro-prudential tools – at this stage it looks like some kind of income ratio test is being explored. The political ramification of this cannot be understated, and one would think any new macro prudential tools would be very well considered and targeted, especially a year before the next election. Any such measure would give the RBNZ more flexibility when it comes to the OCR, as it is the housing market above all else that stands in the way of an OCR cut.

The Cash Fund has 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.