# 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$5 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

To construct a portfolio of authorised investments that outperform the Fund's benchmark return by 0.2% per annum over a rolling three year period before fees.

## Benchmark

Bloomberg NZBond Bank Bill Index (from 1 July 2016)

## 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 week of March, June, September and December

## Currency management

All investments will be in New Zealand dollars

## 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.

## Performance (NZD gross returns)

| | Fund | Benchmark* | Excess |
|---|---|---|---|
| 1 month | 0.25% | 0.20% | 0.05% |
| 3 months | 0.78% | 0.59% | 0.19% |
| 6 months | 1.61% | 1.31% | 0.30% |
| 1 year | 3.56% | 2.89% | 0.67% |
| 2 years (pa) | 4.01% | 3.30% | 0.71% |
| 3 years (pa) | 3.96% | 3.14% | 0.81% |
| 5 years (pa) | 4.00% | 2.98% | 1.02% |
| 10 years (pa) | 5.33% | 4.36% | 0.97% |

* S&P/NZX Bank Bills 90-Day Index prior to 1 July 2016

## Fund size

NZ$679 million

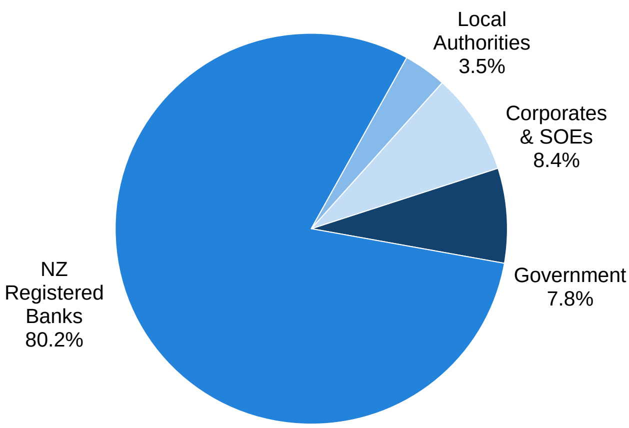
## Duration and yield

| | |
|---|---|
| Duration | Fund 113 days versus benchmark 45 days |
| Yield | Fund 3.15% versus benchmark 2.36% |

## Credit quality

| | |
|---|---|
| AAA | 0.0% |
| AA | 73% |
| A | 26.6% |
| BB+ | 0.4% |

## Asset allocation (% of fund)




## Top 5 issuers (% of fund)

| | |
|---|---|
| Bank of New Zealand | 22.8% |
| KiwiBank | 13.9% |
| ANZ Bank | 11.7% |
| Westpac Banking Corp | 10.1% |
| ASB | 8.4% |
| Number of issuers in portfolio | 24 |

## Compliance

The Fund complied with its investment mandate during the month.

## Commentary

Over June the Fund returned 0.25% for the month, compared to the benchmark return of 0.20 and 0.78% vs 0.59% for the quarter. 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 Fund is currently 113 days.

Short term interest changed very little over June, and the yield curve remains inverted. The 90-day rate closed flat at 2.42% and the 1-year swap was down 1 point to 2.25%.

The RBNZ left the Official Cash Rate (OCR) unchanged at 2.25% at the June Monetary Policy Statement (MPS) review. The easing bias was maintained, and the forecast for the 90-day bills track implied a further cut, but the statement was seen as less dovish. In its statement the RBNZ noted that domestic activity continues to be supported by strong net migration, construction, tourism and accommodative monetary conditions. The dairy sector is a moderating influence, with export prices below break-even levels for most farmers. The assessment was that a cut may be warranted at some stage, but not right at the moment and 2.25% may potentially be the bottom of this easing cycle. The NZD closed the day almost 1 cent higher.

The RBNZ also noted improved global economic sentiment, but since the MPS we have had the Brexit vote and global sentiment has deteriorated and financial market volatility has returned. Our assessment is that it is too early to say what the practical implications of Brexit are for New Zealand. Article 50, to start negotiations to leave the EU, hasn't yet been triggered, and no road map has been laid out. We will continue to watch developments as they occur, with particular interest on European banks share prices, and levels of capital and funding costs, as these issues may flow though to fund costs for Australasian banks.

It has been clear for some time that although the RBNZ would like the NZD lower it is reluctant to cut rates in the face of an ever strengthening housing market. Recent data points to investor activity being the main driver of the market. However credit growth is also strong, as households have taken on debt on the back of increasing house values. This appears to be, above all else, the barrier standing in the way of further interest rate cuts. John Key has recently announced a $1 Billion fund to help councils in certain areas fund the infrastructure requirements of residential property development. He has also said the Government has given the go ahead for the RBNZ to expand its macro prudential policy, and expects that to target property investors, and for the RBNZ to take action sooner rather than later. We will be watching this closely as to the implications to short term rates.

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.