

# Nikko AM Wholesale NZ Cash Fund

## Fund manager

Nikko Asset Management New Zealand Limited (Nikko AM NZ).

In New Zealand we actively manage around 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 NZ 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 outperforming the benchmark.

Nikko AM NZ'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 Portfolio Investment Entity (PIE) which is priced daily. Investors elect their own Portfolio Investor Rate. Information is provided to the IR and investors 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.

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### Performance (NZD gross returns)

	Fund	Benchmark*	Excess
1 month	0.28%	0.20%	0.08%
3 months	0.83%	0.61%	0.22%
6 months	1.65%	1.25%	0.40%
1 year	3.45%	2.73%	0.71%
2 years (pa)	3.93%	3.20%	0.73%
3 years (pa)	3.93%	3.13%	0.80%
5 years (pa)	3.98%	2.97%	1.01%
10 years (pa)	5.26%	4.27%	0.99%

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

### Fund size

NZ\$690 million

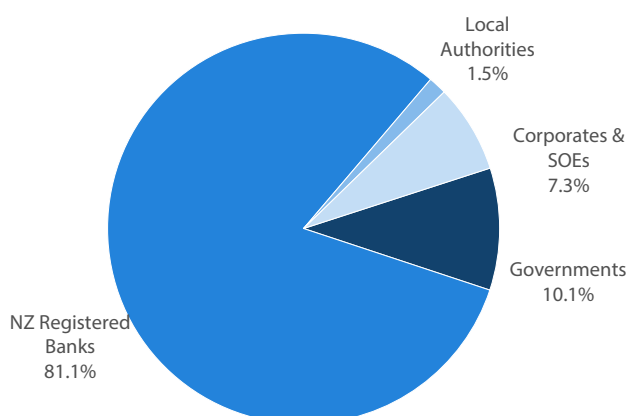
### Duration and yield

Duration	Fund 101 days versus benchmark 45 days
Yield	Fund 3.04% versus benchmark 2.15%

### Credit quality

AAA	0.7%
AA	73.3%
A	26.0%

### Asset allocation (% of fund)



### Top 5 issuers (% of fund)

Bank of New Zealand	24.6%
KiwiBank	15.0%
Westpac Banking Corp	11.2%
Government	10.1%
ASB	9.5%
Number of issuers in portfolio	21

### Compliance

The Fund complied with its investment mandate during the month.

### Commentary

Over August the Fund returned 0.28%, compared to the benchmark return of 0.20%. 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 portfolio is currently 101 days.

Short term interest rates fell over the month, the yield curve remains inverted which indicates the market is expecting lower rates in the months ahead. The 90-day rate closed down 3 basis points to 2.25%, 1-year swap was down 4 basis points to 2.05%.

The RBNZ cut the Official Cash Rate (OCR) by 25 basis points to a record low of 2% in August. The RBNZ noted that despite unprecedented levels of monetary stimulus, global growth remains weak. Uncertainty around political risk, commodity prices and the prospect for global growth is helping keep interest rates at record lows. This is particularly unhelpful from the RBNZ's point of view as global rates relative to New Zealand are keeping the exchange rate high. In August RBNZ Governor Wheeler gave a speech on the challenges facing monetary policy. In the speech he talked about the conflict between low CPI inflation, high relative interest rates in New Zealand and the high NZD with strong New Zealand domestic growth, capacity issues and persistently high house price inflation. The question was also asked how fiscal policy could support monetary policy. This question is being asked more often, locally and across international markets, and is recognition that monetary stimulus can only do so much in times of record low rates, and that a fiscal response may have a role to play in generating global growth and inflation.

Our view for some time has been that the New Zealand economy is doing well, and that rate cuts appear to be at odds with domestic economic activity. Strong net migration, construction, tourism, agriculture ex-dairy, strong labour markets and confidence are all supportive. However the RBNZ appears to have taken the line that lower interest rates will address the strength of the NZD and assist in getting inflation back into the Bank's 1-3% target range.

The market is now pricing an 80% chance of a further 25 basis point cut by November. The risk is that the RBNZ is more aggressive, cutting rates, possibly earlier, and signalling further cuts to come in an attempt to address the NZD and low inflation.

The 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 relative to the 90 Day Bank Bills Index. We have been buying high credit quality commercial paper as a source of added liquidity and portfolio duration. The margins on 12 month term deposits remain attractive. Highly rated short term fixed and floating rate securities remain in strong demand, and we have been active here at good margins considering the market supply and demand dynamics. This has all been of benefit to the portfolio as rates have continued to go lower.