

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 NZ'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 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 Prescribed 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	0.25%	0.19%	0.06%
3 months	0.76%	0.57%	0.20%
6 months	1.60%	1.18%	0.42%
1 year	3.30%	2.57%	0.73%
2 years (pa)	3.74%	3.02%	0.72%
3 years (pa)	3.87%	3.10%	0.77%
5 years (pa)	3.95%	2.94%	1.02%
10 years (pa)	5.14%	4.14%	1.00%

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

Fund size

NZ\$697 million

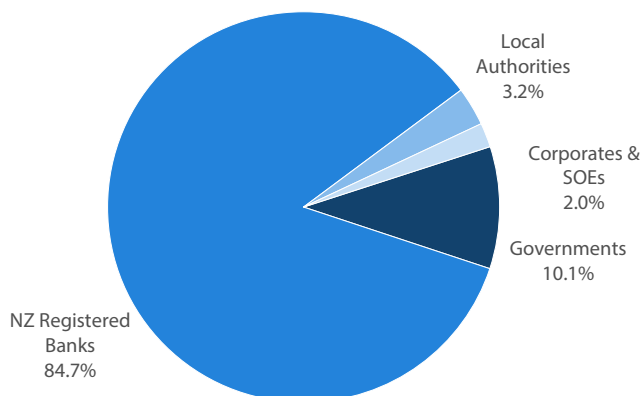
Duration and yield

Duration	Fund 122 days versus benchmark 45 days
Yield	Fund 2.95% versus benchmark 1.93%

Credit quality

AAA	0.7%
AA	72.6%
A	26.7%

Asset allocation (% of fund)



Top 5 issuers (% of fund)

Westpac Banking Corporation	19.5%
Kiwibank	16.6%
Bank of New Zealand	16.0%
ASB	14.0%
NZ Government	10.1%
Number of issuers in portfolio	22

Compliance

The Fund complied with its investment mandate during the month.

Commentary

Over the month of November the Fund returned 0.25%, compared to the 90-day Bank Bill 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, the duration of the portfolio is currently 122 days.

The Official Cash Rate (OCR) was cut by 25 basis points in November, to an all-time low of 1.75%. The cut was widely expected by the market, as was the shift from an easing bias to a neutral one. The key paragraph in the Monetary Policy Statement said that policy will continue to be accommodative, and that at current settings economic growth should be strong enough to see inflation head towards the middle of the target band of 1-3%.

The short-end of the yield curve became upward sloping over November, indicating the market believes the rate cutting cycle has ended. Over November the 90-day rate closed down 12 points to 2.04% and the 1-year swap was up 4 points to 2.11%. New Zealand's economic growth looks to be maintaining the momentum it has gathered over recent months. Adding to the positive environment is the bounce back in dairy prices and it seems unlikely that the recent Kaikoura earthquake will knock the economy off course.

Global interest rates have moved higher. On the face of it Donald Trump's Presidency win will mean larger fiscal spending in the US - which should generate economic growth and inflation. Global Central Banks seem to be stepping away from further monetary easing, albeit cautiously. The US Fed will be making an interest rate call in December and the market is widely expecting a hike. The forecast for further hikes will be very interesting as this may need to be adjusted for the potential fiscal spend and may drive rates across the curve higher still.

The market in New Zealand is not pricing in an OCR move for some time. The RBNZ stated that numerous uncertainties remain, particularly in respect of the international outlook - policy may need to adjust accordingly.

The Cash Fund has a higher yield and a longer duration than the 90-day bank bill index. The higher yield should lead to continued strong performance of the Fund. We have been buying high credit quality commercial paper as a source of added liquidity and portfolio duration. Margins on 12-month term deposits remain attractive. Highly rated short term fixed and floating rate securities have become more available lately, at attractive levels. Locking in these types of assets has been of benefit to the portfolio as rates have continued to go lower.