# 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 NZ domiciled 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.

## Performance (NZD gross returns)

| | Fund | Benchmark* | Excess |
|---|---|---|---|
| 1 month | 0.25% | 0.17% | 0.08% |
| 3 months | 0.76% | 0.54% | 0.22% |
| 6 months | 1.56% | 1.12% | 0.44% |
| 1 year | 3.20% | 2.42% | 0.78% |
| 2 years (pa) | 3.61% | 2.88% | 0.74% |
| 3 years (pa) | 3.82% | 3.06% | 0.76% |
| 5 years (pa) | 3.92% | 2.92% | 1.00% |
| 10 years (pa) | 5.05% | 4.04% | 1.02% |

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

## Fund size

NZ$681 million

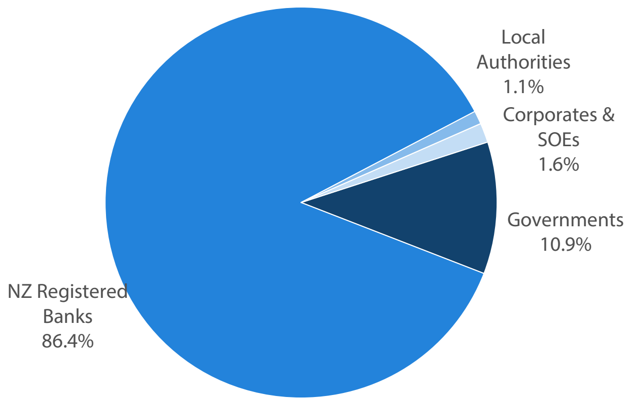
## Duration and yield

| | |
|---|---|
| Duration | Fund 110 days versus benchmark 45 days |
| Yield | Fund 3.05% versus benchmark 1.88% |

## Credit quality

| | |
|---|---|
| AAA | 0.7% |
| AA | 70.9% |
| A | 28.4% |

## Asset allocation (% of fund)




## Top 5 issuers (% of fund)

| | |
|---|---|
| Westpac Banking Corporation | 21.5% |
| Kiwibank | 17.2% |
| ASB Bank Limited | 14.3% |
| Bank of New Zealand | 12.2% |
| NZ Government | 9.6% |
| **Number of issuers in portfolio** | **15** |

## Compliance

The Fund complied with its investment mandate during the month.

## Commentary

Over the month of January the Fund returned 0.25%, compared to the 90-day Bank Bill Index return of 0.17%. 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 110 days.

The short end of the yield curve is upward sloping, indicating the market believes the rate cutting cycle has likely finished for now with The Official Cash Rate at an all-time low of 1.75%.

Over January the 90-day rate was unchanged at 2.00% and the 1-year swap was down 3 points to 2.15%.

December quarter CPI was published in January and annual inflation is at 1.3%, the highest rate since June 2014. National house prices seem to be easing off highs, but are still at elevated levels. Migration is still very strong, and barring policy changes in election year it is hard to see these levels falling sharply as New Zealand remains an attractive place for migrants. Consumer and business confidence remains high. We need to think about conflicting factors to all of this when thinking about the RBNZ potential for hiking the OCR. The NZD is still at elevated levels, and will keep tradable inflation down. Deflationary factors locally and abroad are still present. Banks have lifted mortgage rates, providing an effective tightening to the credit markets. Unemployment unexpectedly increased by 0.3% to 5.2%, and wage growth remains at a low level of 1.6%. The most recent statement from the US Fed' seems to suggest that they will be happy to hold their cash rates, as the US Dollar and longer yields have already risen. The NZ market is pricing a 40% chance of a 25 basis point hike by September. At this stage we are not expecting a change to the OCR this year, but the balance of risk would suggests that there is potential for hikes to be bought forward, and it seems the market is just looking for an excuse to price this in.

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 readily available lately, at attractive levels.