# 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 | 0.26% | 0.15% | 0.10% |
| 3 months | 0.77% | 0.50% | 0.27% |
| 6 months | 1.54% | 1.07% | 0.47% |
| 1 year | 3.21% | 2.33% | 0.88% |
| 2 years (pa) | 3.58% | 2.81% | 0.77% |
| 3 years (pa) | 3.82% | 3.04% | 0.78% |
| 5 years (pa) | 3.91% | 2.90% | 1.00% |
| 10 years (pa) | 5.02% | 3.99% | 1.03% |

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

## Fund size

NZ$692 million

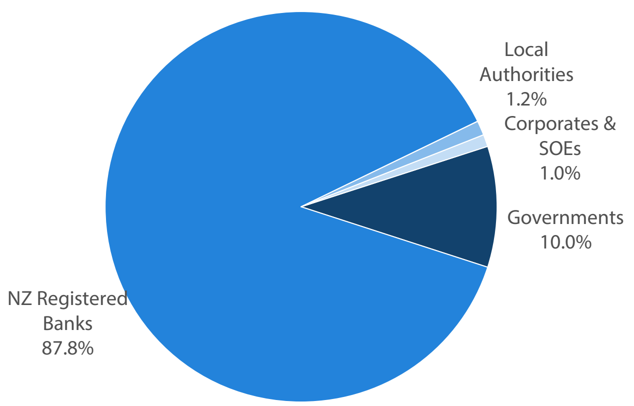
## Duration and yield

| | |
|---|---|
| Duration | Fund 106 days versus benchmark 45 days |
| Yield | Fund 2.94% versus benchmark 1.89% |

## Credit quality

| | |
|---|---|
| AAA | 0.7% |
| AA | 69.0% |
| A | 30.3% |

## Asset allocation (% of fund)




## Top 5 issuers (% of fund)

| | |
|---|---|
| Westpac Banking Corporation | 23.4% |
| Kiwibank | 17.2% |
| ASB Bank Limited | 13.4% |
| Bank of New Zealand | 11.2% |
| ANZ Bank | 10.2% |
| **Number of issuers in portfolio** | **18** |

## Compliance

The Fund complied with its investment mandate during the month.

## Commentary

Over the month of February the Fund returned 0.26%, compared to the 90-day Bank Bill Index return of 0.15%. 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 106 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 February the 90-day rate was unchanged at 2.00%, 1-year swap was down 5 points to 2.09%.

The Reserve Bank of New Zealand (RBNZ) left the OCR unchanged at 1.75% at the February Monetary Policy Statement (MPS). The tone of the MPS was very neutral, and the RBNZ has indicated it is on hold for some time. The NZ economy remains in expansionary mode supported by high population growth, strong tourism and construction sectors. Rising commodity prices together with improved consumer and business sentiment, has also improved the New Zealand and global outlook. In a recent speech, the RBNZ Governor said risks around future Official Cash Rate movements are equally weighted, reflecting balanced risks around inflation. The Bank sees the balance of risks for the global outlook to be to the downside highlighting on-going surplus capacity and rising geo-political uncertainty. Global headline inflation has increased, partly due to rising commodity prices. Long term rates have also increased however monetary policy is expected to remain stimulatory, but less so than in the past.

We are expecting a prolonged period of 'no change' in the OCR however expect the next change will be an increase. The market is currently pricing in a 40% chance of an increase in November 2017.

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. We have been buying floating rate notes lately, at margins that are at the upper level of recent ranges and will provide good income over the benchmark index. Short dated fixed rate securities have become scarce again. Our recent buying activity in this space has proved opportune with the slight spread contraction and scarcity we now see.