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	0.78%	0.48%	0.30%
6 months	1.55%	1.02%	0.53%
1 year	3.20%	2.24%	0.96%
2 years (pa)	3.49%	2.67%	0.82%
3 years (pa)	3.80%	2.99%	0.81%
5 years (pa)	3.88%	2.87%	1.00%
10 years (pa)	4.94%	3.89%	1.04%

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

Fund size

NZ$598 million

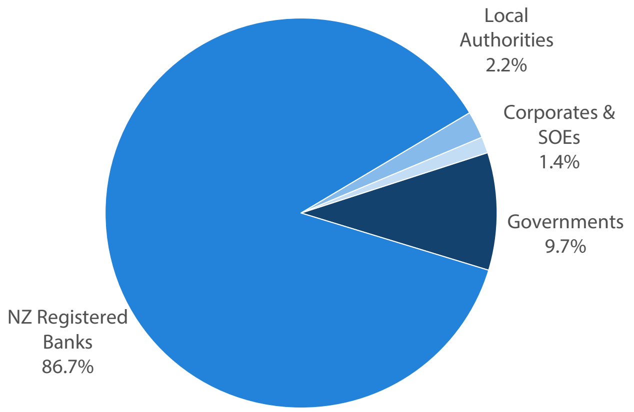
Duration and yield

Duration	Fund 99 days versus benchmark 45 days
Yield	Fund 2.8% versus benchmark 1.88%

Credit quality

AAA	1.8%
AA	71.4%
A	26.8%

Asset allocation (% of fund)



Top 5 issuers (% of fund)

Westpac Banking Corporation	20.6%
Kiwibank	16.0%
ASB	15.0%
ANZ Bank	11.7%
Bank of New Zealand	10.9%
Number of issuers in portfolio	**17**

Compliance

The Fund complied with its investment mandate during the month.

Fund commentary

The fund outperformed its benchmark over the month. The higher yield was the main contributor with the longer than benchmark duration also adding value. We expect the higher yield to continue to contribute to strong performance of the fund. We have been buying high credit quality commercial paper as a source of added liquidity and portfolio duration, and we have been rolling commercial paper at margins in the upper levels of the tender bids. Margins on 12-month term deposits remain attractive. Credit margins on fixed and floating rate bonds have contracted, and our recent buying activity in this space has added to performance.

Market commentary

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 April the 90-day and 1-year swap rate were both unchanged at 2.00% and 2.07% respectively.

Economic data released during April showed the economy performed well in the first quarter, and momentum should see a continued expansion. Business and consumer confidence has softened, but from a high level. The housing market has moderated in recent months. Even though bank funding costs have been stable mortgage rates have been going up, providing a tightening to credit and the housing market. Investor LVRs also appear to have had an impact. The strength of the March quarter CPI inflation surprised, pushing annual inflation to 2.2%, the highest since 2011. One-offs accounted for part of this, and excluding food, petrol and energy, annual inflation would have been 1.6%. The NZD was an underperformer at month end on global trade concerns, but has since recovered somewhat.

The market is forecasting the next OCR move to be up, pricing in an 80% chance by Feb 2018. We tend to agree with this assessment as the RBNZ is currently on hold with equal weight given to either an up or a down move. An earlier move is unlikely as NZ has a General Election in September and Graeme Wheeler is stepping down from his role as Governor in September. Global monetary policy, the level of the NZ Dollar and the impact of tradable inflation, CPI inflation, the housing market, and the maturity of this economic cycle will all help determine the direction, and extent of the next move. We expect the next move to be up, and are of the view that the next tightening of monetary policy will not have to go as far as it may have in the past to have the same effect of balancing the economy.