

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.

Disclaimer | This document is issued by Nikko Asset Management New Zealand Limited (Company No. 606057, FSP No. FSP22562), the investment manager of the Nikko AM NZ Investment Scheme and the Nikko AM NZ Wholesale Investment Scheme. This information is for the use of researchers, financial advisers and wholesale clients. This material has been prepared without taking into account a potential investor's objectives, financial situation or needs and is not intended to constitute personal financial advice, and must not be relied on as such. Recipients of this document, who are not wholesale investors (in accordance with Schedule 1, Clause 3 Financial Markets Conduct Act 2013), or their duly appointed agent, should consult an Authorised Financial Adviser and the relevant Product Disclosure Statement or Fund Fact Sheet. Past performance is not a guarantee of future performance. While we believe the information contained in this presentation is correct at the date of presentation, no warranty of accuracy or reliability is given and no responsibility is accepted for errors or omissions including where provided by a third party.

Performance (NZD gross returns)

	Fund	Benchmark*	Excess
1 month	0.24%	0.17%	0.08%
3 months	0.77%	0.50%	0.27%
6 months	1.54%	1.00%	0.54%
1 year	3.17%	2.20%	0.97%
2 years (pa)	3.42%	2.60%	0.81%
3 years (pa)	3.76%	2.96%	0.80%
5 years (pa)	3.83%	2.86%	0.97%
10 years (pa)	4.90%	3.84%	1.05%

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

Fund size

NZ\$591 million

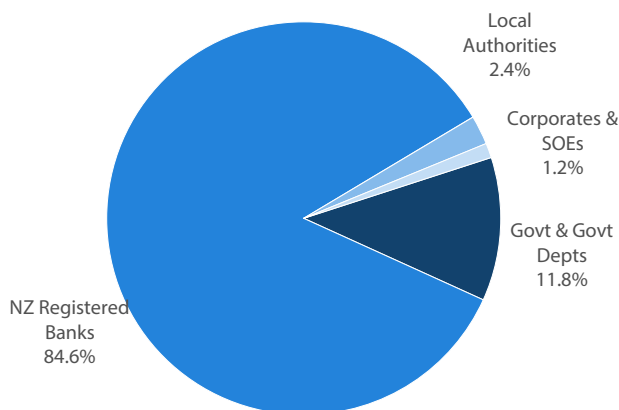
Duration and yield

Duration	Fund 117 days versus benchmark 45 days
Yield	Fund 2.92% versus benchmark 1.88%

Credit quality

AAA	1.8%
AA	68.7%
A	29.5%

Asset allocation (% of fund)



Top 5 issuers (% of fund)

Westpac Banking Corporation	20.7%
Kiwibank	17.2%
ASB	14.9%
ANZ Bank	12.4%
NZ Government Departments	11.8%
Number of issuers in portfolio	18

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. The higher yield should lead to continued strong performance of the Fund. Margins on 12-month term deposits remain attractive. Margins on fixed and floating rate bonds are attractive when looking at global comparisons, and we have been taking advantage of this recently.

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 RBNZ leaving the Official Cash Rate at an all-time low of 1.75% at the May Monetary Policy Statement.

Over May the 90-day bank bill and 1-year swap rate were both down 5 basis points at 1.95% and 2.02% respectively. Economic data released during the year up to May show an economy that is performing well and has momentum. Employment growth (job creation) is outstripping labour force growth (migration), and the unemployment rate has fallen to 4.9%, the lowest since 2008. While wage growth has been slow, rates below 5% suggest that there should be pressure on wages beginning to come through. Net migration is still at all-time highs. House prices have flattened out, particularly in Auckland. The dairy sector is well and truly on its way to recovery with strong Global Dairy Trade auctions meaning farm gate milk prices have increased from \$3.90 last season to \$6.15 for 2016/17. This all leads to maintaining relatively high consumer and business confidence levels.

However, at the May MPS the RBNZ Governor Wheeler stated that monetary policy will remain accommodative for some time, and went on to say that numerous uncertainties remain and that policy may need to adjust accordingly. The RBNZ forecast suggest that the OCR is on hold until the start of 2019. The market is pricing a 50% chance of a hike by March 2018 - we tend to agree with this assessment. 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.