

NIKKO AM NZ CASH STRATEGY

Assets are held in the Nikko AM Wholesale NZ Cash Fund. The Nikko AM NZ Cash Fund (retail) and Nikko AM KiwiSaver Scheme NZ Cash Fund invest in units in the wholesale fund, which the commentary refers to.

Market Overview

- The RBNZ kept the OCR on hold at 0.25% at its April Monetary Policy Review and reiterated that it expected monetary policy would need to remain accommodative for a “considerable time”.
- An additional \$112m was drawn down under the RBNZ’s funding for lending program, bringing total drawings to \$2.85 billion.
- 90 day bank bill rates moved up 1 basis point ending the month at 0.355%.

Fund Highlights

- The fund holds a portfolio of high quality credits which are expected to perform well in an environment of low and stable short term interest rates.
- A longer than benchmark duration position has been maintained reflecting a view that interest rates will remain stable for some time.
- Returns are likely to moderate over the coming months as proceeds from maturities are reinvested at current prevailing market interest rates.

Performance

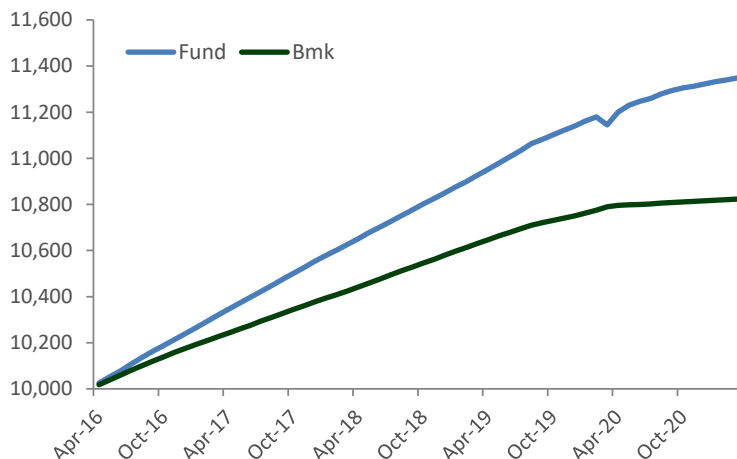
	One month	Three months	One year	Three years (p.a)	Five years (p.a)	Ten years (p.a)
Wholesale ¹	0.07%	0.21%	1.39%	2.16%	2.52%	3.27%
Benchmark ²	0.03%	0.07%	0.28%	1.21%	1.56%	2.27%
Retail ³	0.05%	0.15%	1.10%	1.80%	2.17%	
KiwiSaver ³	0.03%	0.11%	0.95%	1.91%		

1. Returns are before tax and before the deduction of fees.

2. Benchmark: Bloomberg NZBond Bank Bill Index. No tax or fees.

3. Returns are before tax and after the deduction of fees and expenses and including tax credits (if any).

Five Year Cumulative Performance, \$10,000 invested^{1, 2}



Portfolio Manager

Fergus McDonald,
Head of Bonds and Currency



Fergus is responsible for the investment of the Bond, Cash and Currency mandates. Fergus has been actively involved in the NZ financial markets since 1981. The portfolio management team for the domestic fixed income funds includes Ian Bellew, Fixed Income Manager and Matthew Johnson, Fixed Income Manager.

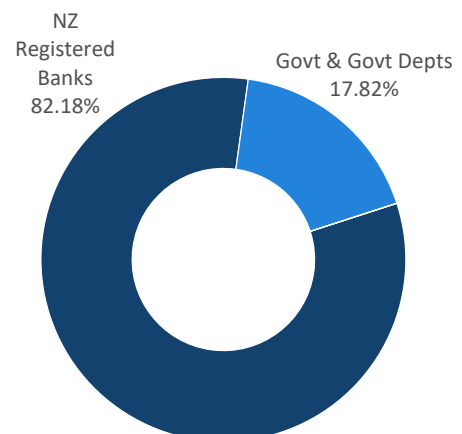
Overview

The strategy aims to generate income by constructing an actively managed investment portfolio of short-term deposits and bonds whilst preserving capital value.

Objective

The fund aims to outperform the benchmark return by 0.20% per annum before fees, expenses and taxes over a rolling three year period.

Asset Allocation



Top 5 Issuers	(%)	Credit Quality	(%)	Duration
ASB Bank Ltd	7.6	A	47.5	Fund 92 days vs Benchmark 45 days
Kiwibank Ltd	7.5	AA	34.7	
Rabobank New Zealand	6.9	AAA	17.8	
ICBC New Zealand	6.3			Yield
Westpac New Zealand Ltd	4.7			Fund (gross) 0.78% vs Benchmark 0.30%

Market Commentary

The RBNZ kept its monetary policy settings unchanged in its April Monetary Policy Review (MPR). As universally expected, they kept the OCR on hold at 0.25% and maintained their \$100b quantitative easing bond buying limit, with this program set to run until June 2022. The RBNZ’s funding for Lending programme (FLP) also remains in place which allows banks to borrow funds for three years at a floating rate linked to the OCR. The FLP can be drawn on at any time until June 6, 2022, with a six month extension conditional on lending growth taking the drawdown window to December 6, 2022. Drawdowns under the FLP increased by \$112m in the month, bringing total drawings to \$2.85 billion.

Looking to the information behind the April MPR we see positive factors in the continuing upward momentum in the global growth outlook, strong export commodity prices and benefits from the commencement of a trans-tasman travel bubble. Negative factors include a weak 4Q GDP print and the government’s recently announced housing policies which on balance is likely to slow investment and growth. On balance the RBNZ has not seen the strength on the positive side as sufficient to offset the negative factors move towards less accommodative monetary policy.

The RBNZ’s messaging continues to be that expansionary monetary policy will be needed for a “considerable time”. They repeated they won’t tighten policy until inflation is up to 2% on a “sustainable basis” and employment is at or above its maximum sustainable level. The RBNZ has also kept potential for OCR cuts on the table “if required” however we believe this outcome is increasingly unlikely. The global growth outlook continues to improve, inflation expectations are building and progress is being made to more open borders, all of which will support growth. To see OCR cuts pursued we would need to see a delay in the reopening of major global economies or a significant weakening in NZ’s economic fortunes.

With the RBNZ reiterating it expects to maintain an accommodative monetary policy stance for some time and meaningful capacity remaining in the FLP we expect short term interest rates to remain low and stable for some time.

Fund Commentary

The fund performed well in April returning 0.07% outperforming the 90-day bank bill index which returned 0.03%. The fund holds a longer than benchmark duration position which provides a yield enhancement over the 90 day bank bill index with benefits accruing primarily from the slope of the credit curve. The RBNZ has reiterated it expects monetary policy will need to remain accommodative for a “considerable time”. In this environment we expect short term interest rates will be stable and the fund’s long duration position will perform well.

Key Fund Facts

Distributions	Estimated annual fund charges (incl. GST)		
Wholesale fund: Calendar quarter	Wholesale: Negotiated outside of unit price		
Retail fund: Calendar quarter	Retail: 0.30%, refer PDS for more details		
KiwiSaver fund: Does not distribute	KiwiSaver: 0.45%, refer PDS for more details		
Hedging	Buy / Sell spread	Strategy size	Strategy Launch
All investments will be in New Zealand dollars	0.00% / 0.00	\$720.8mm	October 2007

Compliance

The wholesale fund complied with its investment mandate and trust deed during the month.

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