

# NIKKO AM WHOLESALE OPTION FUND

## Monthly Fact Sheet

### Why Nikko Asset Management NZ?

As New Zealand's only dedicated global investment manager, Nikko AM NZ pairs local knowledge and experience with significant global resources. We manage over \$200 billion under management globally and around \$5 billion in New Zealand.

### Fund overview

The Fund invests into cash deposits and bank bills with highly rated financial institutions. The assets are then used as collateral security for derivatives, in particular, selling options on long-term NZ, US, UK, Euro bloc or Australian government stock.

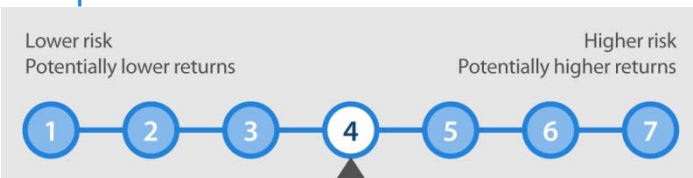
### Benchmark

Bloomberg NZBond Bank Bill Index plus 4.0% per annum

### Performance objective

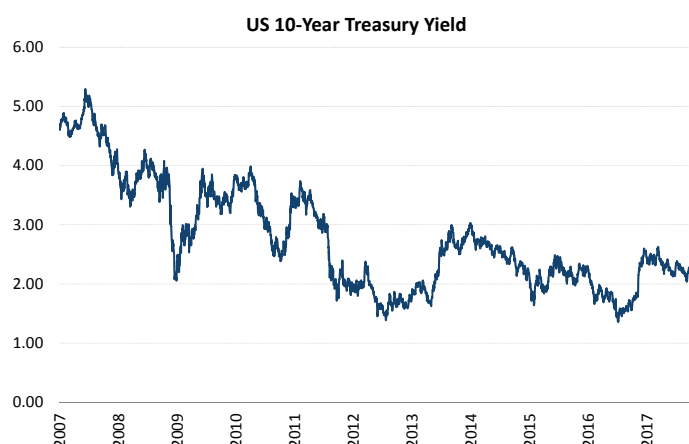
The aim is to construct a portfolio that earns a gross return of Bloomberg NZBond Bank Bill Index plus 4% over a rolling three year period before fees.

### Risk profile



Standard deviation of gross returns over a rolling 5 years to the last calendar quarter.

### US 10-year treasury yield



### Portfolio management team

**Fergus McDonald** is Head of Bonds and Currency and is responsible for the investment of the Bond, Cash and Currency mandates. Fergus has been actively involved in the NZ financial markets since 1981.



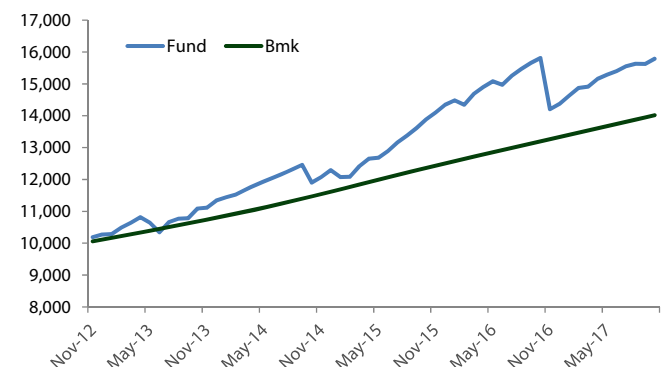
The portfolio management team for the domestic fixed income funds also includes Ian Bellow, Fixed Income Manager and Tim O'Loan, Fixed Income Analyst.

### Performance summary

	Gross <sup>1</sup>	Benchmark
1 month	1.06%	0.50%
3 months	1.52%	1.50%
1 year	-0.12%	6.18%
2 years	6.63%	6.50%
3 years (pa)	9.88%	6.90%
5 years (pa)	9.57%	6.98%
10 years (pa)	10.13%	7.77%

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

### Five year cumulative performance (gross)<sup>1</sup>



## Key fund facts

<b>Strategy launch date</b> October 2007	<b>Distributions</b> Generally does not distribute
<b>Fund structure</b> PIE fund	<b>Benchmark</b> Bloomberg NZBond Bank Bill Index plus 4.0% per annum
<b>Buy/sell spread</b> nil	<b>Hedging</b> Any foreign currency exposures are hedged to NZD within an operational range of 98.5% to 101.5%

## Compliance

The Fund complied with its investment mandate and trust deed during the month

## Fund Performance

The Option Fund returned 1.06% over October as yield movements on 10-year US Treasury Bonds traded in a more modest range than in recent months. The yield on 10-year bonds traded in a 0.21% range from a high of 2.48% to a low of 2.27% before closing the month at 2.38%. The fund continues to sell options out to two months as the income received compares favourably to selling shorter dated options.

## Market Commentary

US Treasury rates were higher due to a positive flow of economic data and increased confidence of tax reform ahead. An added source of volatility was speculation about Trump’s appointment for the next Federal Reserve chair. The markets pick is Jerome Powell, Powell is an existing Federal Reserve Governor and if appointed will likely see continuity of Janet Yellen’s policies. Under Yellen, whose four year term expires Feb 3 2018, the Fed has overseen a nine year economic expansion and a fall in unemployment to a 16-year low. It would be up to Powell to keep that growth on track, under a President who has a preference for faster gains in GDP growth levels and continued low rates.

It’s a delicate balance, raise rates too quickly and risk stalling the third largest US expansion and hurt the equity market rally for which Trump likes to take credit. Tighten too slowly and a hot economy might boost the cost of living, inflate asset bubbles and fuel investor’s doubts about the Feds inflation fighting credibility.

## Contact us

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### Important Information

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