

NIKKO AM WHOLESALE OPTION FUND

Monthly Fact Sheet

Why Nikko Asset Management NZ?

As a dedicated global investment manager Nikko AM NZ pairs local knowledge and experience with significant global resources. The Nikko group manages over US\$200 billion globally, including around NZ\$5 billion in New Zealand.

Fund overview

The fund invests in cash and fixed interest investments, and undertakes a leveraged trading strategy based on writing options over global government bonds.

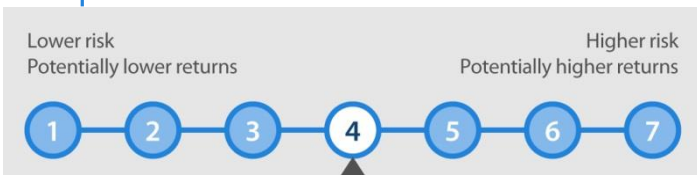
Benchmark

Bloomberg NZBond Bank Bill Index plus 4.0% per annum

Performance objective

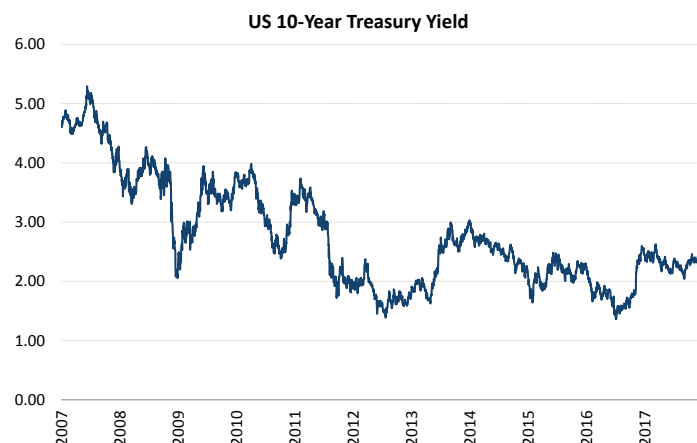
The aim is to construct a portfolio that earns a gross return of Bloomberg NZBond Bank Bill Index plus 4% over a rolling three year period before fees.

Risk profile



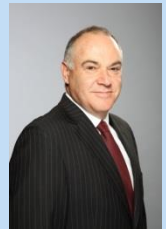
Standard deviation of gross returns over a rolling 5 years to the last calendar quarter.

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.



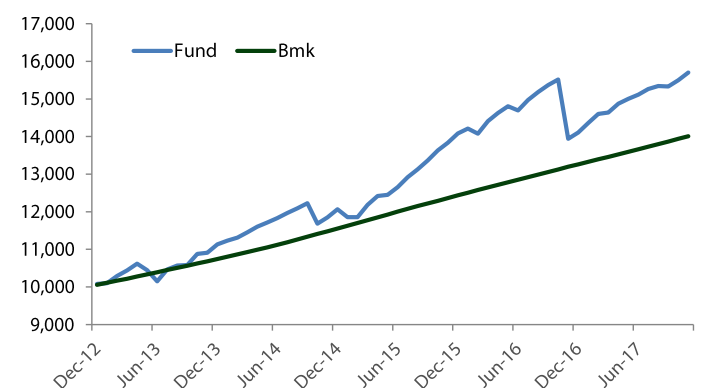
The portfolio management team for the domestic fixed income funds also includes Ian Bellow, Fixed Income Manager and Tim O'Loan, Fixed Income Analyst.

Performance summary

	Gross ¹	Benchmark
1 month	1.33%	0.49%
3 months	2.35%	1.50%
1 year	12.66%	6.15%
2 years	6.53%	6.44%
3 years (pa)	9.84%	6.85%
5 years (pa)	9.45%	6.97%
10 years (pa)	10.19%	7.72%

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

Five year cumulative performance (gross) ¹



Key fund facts

Strategy launch date October 2007	Distributions Generally does not distribute
Strategy FUM \$179.7m	Benchmark Bloomberg NZBond Bank Bill Index plus 4.0% per annum
Fund structure PIE fund	Hedging Any foreign currency exposures are hedged to NZD within an operational range of 98.5% to 101.5%
Buy/sell spread nil	

Compliance

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

Fund Performance

The Option Fund returned 1.33% over November. The yield movement on US 10 year Treasury Bonds was modest over the month with the yield trading in a range from 2.30% to 2.41%. Modest movement in US bond yields was the main reason for the positive return however the additional income the fund received from selling two month options compared to one month options was also beneficial.

Market Commentary

The global economic backdrop continues to improve indicating interest rates should have moved higher by now; however, a lack of measured inflation is keeping global bond rates in check. Another Federal Reserve rate hike is expected in December with a further three rate-rises likely in 2018. With a recovery in economic activity in the Eurozone, German bond yields look increasingly expensive, especially as inflation there increases. Higher German rates over 2018 could play a key role in driving US bond rates higher.

The nomination of Jerome Powell as Janet Yellen's replacement as Federal Reserve Chairman was well received by markets as it is seen as a continuation of the current policy stance. He told law makers the case for raising interest rates at the December policy meeting is strengthening, as the labour market improves without prompting the US economy to overheat. A December increase would be the third tightening of policy this year and the fifth hike since the US economic expansion began in mid-2009.

Even though short term rates in the US are likely to rise over 2018 we are not expecting longer term interest rates to rise to the same extent. Volatility in bond and equity markets remains low with any increases in activity dying away again over a short time period. Should these conditions continue, the income from selling options will be less than seen over the past few years; we believe the incidence of our fund making payments to the owners of options the fund has sold should also be modest. The combination of these two factors will likely see the Option Fund provide acceptable level of returns over the next year.

Contact us

www.nikkoam.co.nz | nzenquiries@nikkoam.com

Important Information

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