

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

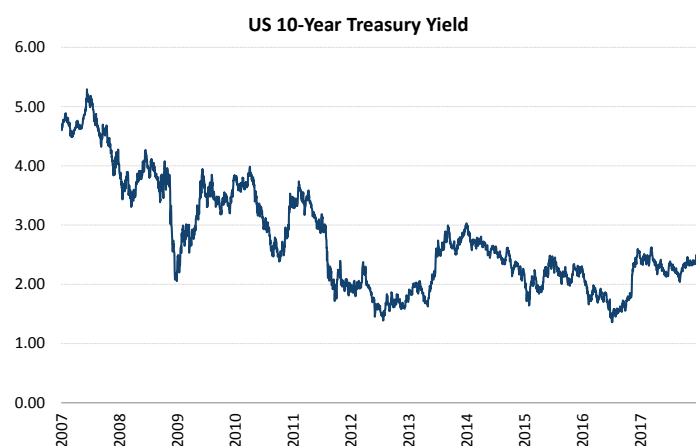
The aim is to construct a portfolio that earns a gross return of Bloomberg NZBond Bank Bill Index plus 4% over a rolling three year period before fees.

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.



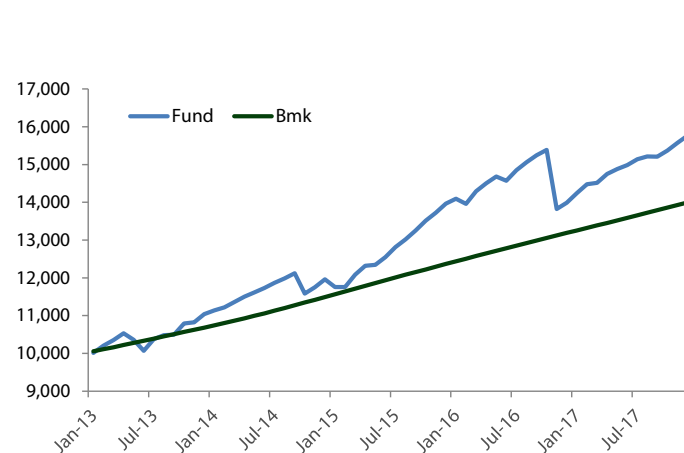
The portfolio management team for the domestic fixed income funds includes Ian Bellow, Fixed Income Manager and Tim O'Loan, Fixed Income Analyst.

Performance summary

	Gross ¹	Benchmark
1 month	1.21%	0.49%
3 months	3.65%	1.50%
1 year	12.65%	6.13%
2 years	6.24%	6.39%
3 years (pa)	9.63%	6.80%
5 years (pa)	9.53%	6.96%
10 years (pa)	10.15%	7.65%

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

Five year cumulative performance (gross) ¹



Key fund facts

<p>Strategy launch date October 2007</p> <p>Strategy FUM \$180.9m</p> <p>Fund structure PIE fund</p> <p>Buy/sell spread nil</p>	<p>Distributions Generally does not distribute</p> <p>Benchmark Bloomberg NZBond Bank Bill Index plus 4.0% per annum</p> <p>Hedging Any foreign currency exposures are hedged to NZD within an operational range of 98.5% to 101.5%</p>
---	--

Compliance

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

Market Commentary

The US Federal Reserve raised the Fed Funds rate for the third time in 2017 at its December meeting. This rate rise was well anticipated by the market and did not cause any disruption when it was delivered. Soft US inflation data also helped keep bond yields stable. Despite revising downwards its unemployment rate forecasts, the Fed's Open Market Committee kept its interest rate and inflation forecasts unchanged for 2018. This is perhaps a less hawkish signal than expected and may indicate future interest rate hikes will occur at a modest rate.

International rate movements may also be having an influence on US rates. In the second half of the month the US 10-year Treasury bond hit 2.50%, its highest level since March. This coincided with upwards pressure on German 10-year rates which hit a two month high of 0.43%. A number of factors may have influenced the move higher including some hawkish talk from some ECB council members, US tax reform getting close to being implemented and more signs of improving economic growth across Europe and the US.

Fund Performance

The Option Fund returned 1.21% over December. The US 10-year Treasury bond opened and closed the month at a yield of 2.41% and traded in a 19 basis point range. The high in yield was 2.50% and a reached a low of 2.31%. The narrow trading range benefitted the fund as no options were struck meaning all income from selling options was retained by the fund. Selling options with a two month expiry date remains more attractive than selling options with shorter terms however low volatility levels means option income remains modest.

Contact us

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

Important Information

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. 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. For full details on the fund, please refer to our Product Disclosure Statement on nikkoam.co.nz.