

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 around 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.

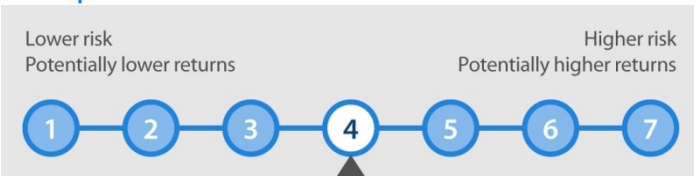
Benchmark

Bloomberg NZBond Bank Bill Index plus 4.0% per annum

Performance objective

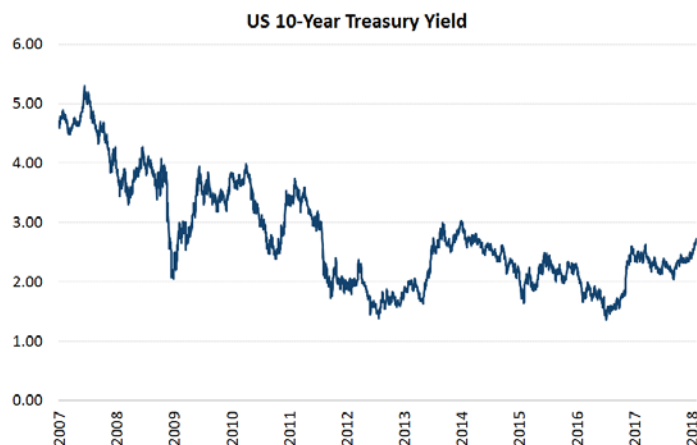
The aim is to construct a portfolio that earns a gross return of Bloomberg NZBond Bank Bill Index plus 4% over a rolling three year period before fees.

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.



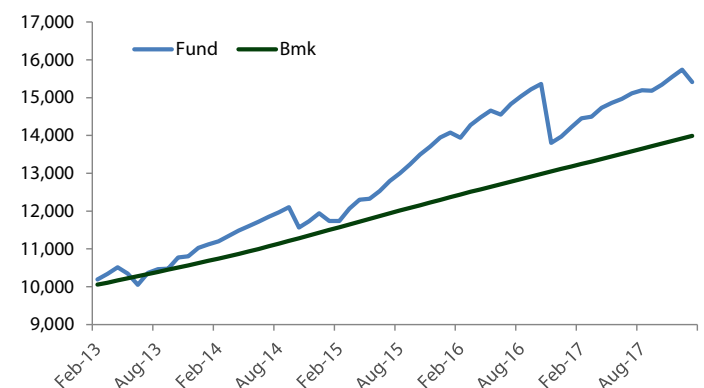
The portfolio management team for the domestic fixed income funds includes Ian Bellow, Fixed Income Manager and Tim O'Loan, Fixed Income Analyst.

Performance summary

	Gross ¹	Benchmark
1 month	-2.08%	0.49%
3 months	0.43%	1.49%
1 year	8.39%	6.12%
2 years	4.64%	6.35%
3 years (pa)	9.50%	6.74%
5 years (pa)	9.04%	6.94%
10 years (pa)	10.21%	7.59%

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 \$176.0m	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	

Market Commentary

Federal Reserved officials, meeting for the last time under Chair Janet Yellen, left borrowing costs unchanged while adding emphasis to their plan for more rate hikes, setting the stage for an increase in March under her successor Jerome Powell.

The committee expects that economic conditions will evolve in a manner that will warrant further gradual increases in the federal funds rate. Changes from previous statements acknowledge stronger growth and more confidence that inflation will rise to their 2% target. There is also speculation the Fed may pick up the pace of interest rate increases. Fed officials also expect inflation to move up over 2018 and then stabilize around their goal.

With her term ending, Yellen is handing the Fed reins to Powell who has backed her gradual approach and is widely expected to raise interest rates at the FOMC's next meeting for the sixth time since 2015. Fed officials are hoping to keep a tight labour market from overheating without raising borrowing costs so fast that it would stifle the economy.

The Fed said 'gains in employment, household spending and business fixed investment have been solid and the unemployment rate has stayed low' however noted that inflation remains low. In our opinion this points to a gradual 'normalisation' of monetary policy with the Fed still wary about pushing rates up too far and too fast.

Fund Commentary

The Option Fund delivered a negative return over January, declining by 2.08%. The US 10-year Treasury bond yields increased steadily over the month beginning at 2.41% before closing on their highs of 2.73%. The rise in yields passed through a number of sold put options resulting in trading losses greater than the option income. As is usually the case the income from writing new options has increased significantly as volatility levels increased. If current levels of volatility are maintained income generated by the fund should remain attractive, however the magnitude of yields changes on the US 10-year bond will continue to determine the overall return of the fund.

Compliance

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

Contact us

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Important Information

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