

# 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

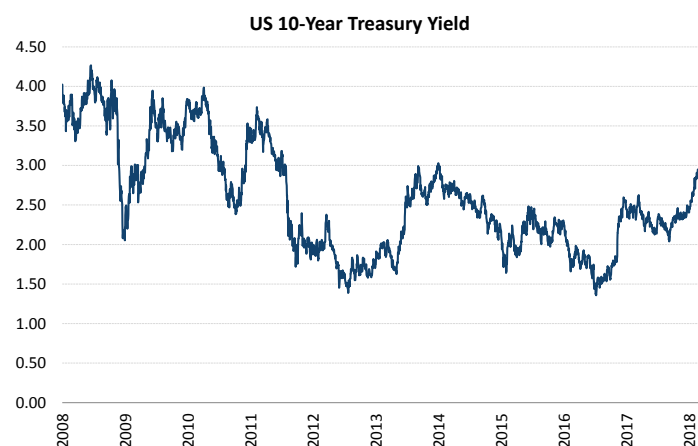
The fund aims to earn a return of the benchmark before fees, expenses and taxes over a rolling three year period.

### 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.



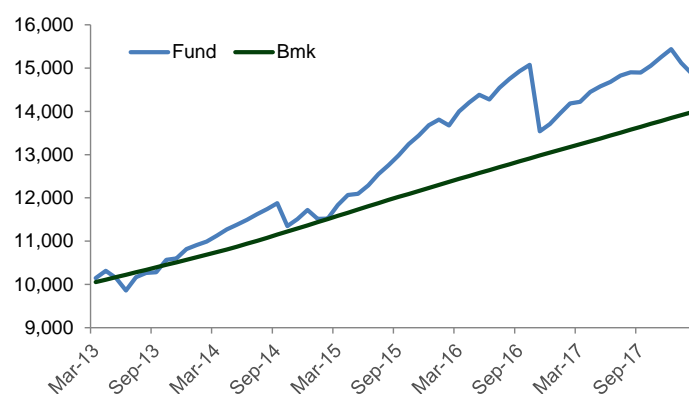
The portfolio management team for the domestic fixed income funds includes Ian Bellow, Fixed Income Manager and Tim O'Loan, Fixed Income Analyst.

### Performance summary

	Gross <sup>1</sup>	Benchmark
1 month	-1.57%	0.48%
3 months	-2.44%	1.47%
1 year	4.94%	6.11%
2 years	4.32%	6.30%
3 years (pa)	8.92%	6.69%
5 years (pa)	8.28%	6.93%
10 years (pa)	9.61%	7.53%

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>Strategy FUM</b> \$168.5m	<b>Benchmark</b> Bloomberg NZBond Bank Bill Index plus 4.0% per annum
<b>Fund structure</b> PIE fund	<b>Hedging</b> Any foreign currency exposures are hedged to NZD within an operational range of 98.5% to 101.5%
<b>Buy/sell spread</b> nil	

## Market Commentary

The new Federal Reserve Governor, Jerome Powell, opened the door to the Fed raising US interest rates four times this year as he acknowledged strengthening economic growth and inflation may prompt policy makers to rethink their plan for three hikes.

In his testimony before a Congress Committee, Powell said “we’ve seen continuing strength in the labour market” adding “we’ve seen data that will add confidence to my view inflation is moving up to target. We’ve also seen continued strength around the globe, and we’ve seen fiscal policy become more stimulative”. Following Powell’s remarks investors marked up the probability of a Fed hike in the fourth quarter to about 50%. A 25 basis point hike in March is fully priced in and the odds of increases in the second and third quarters have lifted to around 75%.

Powell’s remarks also caused yields on 10-year Treasury bonds to jump; his comments were also positive on the outlook for economic growth saying “some of the headwinds the US economy faced in previous years have turned into tailwinds”. He said monetary policy will try to strike a balance between avoiding an overheated economy and bringing inflation back to 2% on a sustained basis.

In our view, controlling inflation and inflation expectations is the best way of ultimately limiting the extent of interest rate increases on long term bonds. To the extent that pushing up short term interest rates moderates economic activity and

inflation, rising short term rates will protect the real value of longer term bonds.

## Fund Commentary

The Option Fund delivered a negative return over February, declining by 1.57%. US 10-year Treasury yields continued to push higher over the month, not quite reaching the physiologically important 3% level. US 10-year yields traded in a 30 basis point range from 2.65% to 2.95% over the month, closing February at a yield of 2.85%. The income from selling new options has increased as volatility levels have increased. If current levels of volatility are maintained, income generated by the fund should be at attractive levels however the magnitude and speed of yield changes in the US 10-year Treasury 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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