

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

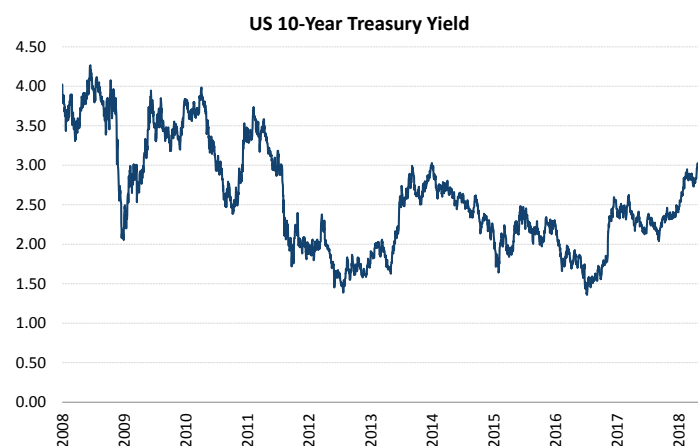
The fund aims to earn a return of the benchmark before fees, expenses and taxes over a rolling three year period.

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.



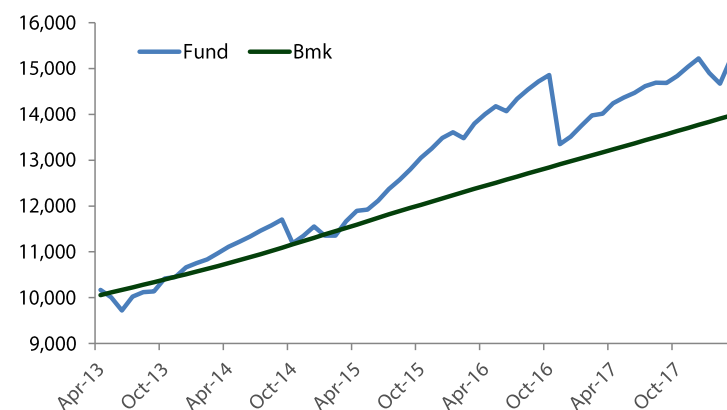
The portfolio management team for the domestic fixed income funds includes Ian Bellew, Fixed Income Manager and Tim O'Loan, Fixed Income Analyst.

Performance summary

	Gross ¹	Benchmark
1 month	0.99%	0.49%
3 months	3.03%	1.47%
1 year	7.81%	6.09%
2 years (pa)	4.72%	6.24%
3 years (pa)	8.89%	6.59%
5 years (pa)	8.60%	6.90%
10 years (pa)	9.35%	7.41%

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 \$105.7m	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	

Market Commentary

Global bond markets moved higher in yield as risk appetite improved on positive news. The fears of a slowdown in global activity due to escalating trade tensions were somewhat allayed as China struck a more conciliatory tone, US-Russia tensions over Syria dissipated and failed to disrupt markets, North Korea announced a willingness to discuss denuclearization with the South, and oil prices performed strongly with the OPEC supply cuts reducing inventory.

The New Zealand swap curve steepened marginally as the spread between the 2 and 10 year swap rates widened from 84 to 94 basis points. After a tough couple of month's credit margins were relatively stable and the higher running yield was of benefit. We remain happy to sell bonds that are in our view expensive in the secondary market with an ongoing shortage of supply, and those bonds that would potentially have a higher beta to a negative credit environment. At this stage we are happy to buy new issues that offer reasonable value and we are not overly negative on the prospects for local credit.

The NZ economy continues to perform well. We have a forecast low and stable cash rate and the expected slowdown in many of the supportive factors hasn't been that evident; house prices, commodity prices, immigration, employment, confidence and general activity all remain relatively robust. One of the big questions for bond markets remains expectations for inflation although we don't have much higher inflation outcomes or interest rates as a base case at this stage.

US trade wars continued to dominate the headlines as China proposed tariffs in retaliation to the proposed US tariffs. Not to be outdone, Trump instructed his administration to consider imposing tariffs on a further \$100b of China imports, in addition to the original \$50b. However, markets were encouraged by President Xi's keynote address at an Asian economic forum. Xi struck a conciliatory tone and allayed some market fears of the current verbal trade war between US-China morphing into an actual trade war.

Contact us

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

US rates trended higher through the month with the US 10 year Treasury Bond breaching 3% for the first time in over four years. The rise in rates was driven by the fear of higher inflation on the back of higher oil prices and increased confidence of further tightening by the Federal Reserve.

Fund Commentary

The Option Fund returned 0.99% over April 2018. Over the month the 10- year US Treasury bond briefly breached 3% for the first time since January 2014. The 10 year bond reached a yield of 3.03% on 26 April before retreating to close the month at 2.96%. We are continuing to see higher levels of volatility priced in to the options the fund sells compared to the levels experienced over the second half of 2017. Although we are seeing a more volatile market in US Treasury Bonds the volatility has not been extreme enough to cause harm to the Option Fund performance. 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 total return of the Fund.

As we saw over April, a yield movement through 3% was not a significant event for the Option Fund as the Fund returns are not dependent upon the directional movement of interest rates. Indeed if the interest rate on 10 year Treasury Bonds moved steadily to 4% over the next year the Option Fund would likely perform well. As mentioned previously large movements in 10 year interest rates over a short period is the main risk the fund is exposed to. Large movements over 3, 6 or 12 months are more easily managed than large movements over a one month period.

US trade wars continued to dominate the headlines as China proposed tariffs in retaliation to the proposed US tariffs. Not to be outdone, Trump instructed his administration to consider imposing tariffs on a further \$100b of China imports, in addition to the original \$50b. However, markets were encouraged by President Xi's keynote address at an Asian economic forum. Xi struck a conciliatory tone and allayed some market fears of the current verbal trade war between US-China morphing into an actual trade war.

US rates trended higher through the month with the US 10 year Treasury Bond breaching 3% for the first time in over four years. The rise in rates was driven by the fear of higher inflation on the back of higher oil prices and increased confidence of further tightening by the Federal Reserve.

Compliance

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

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.