

# NIKKO AM OPTION STRATEGY

## 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

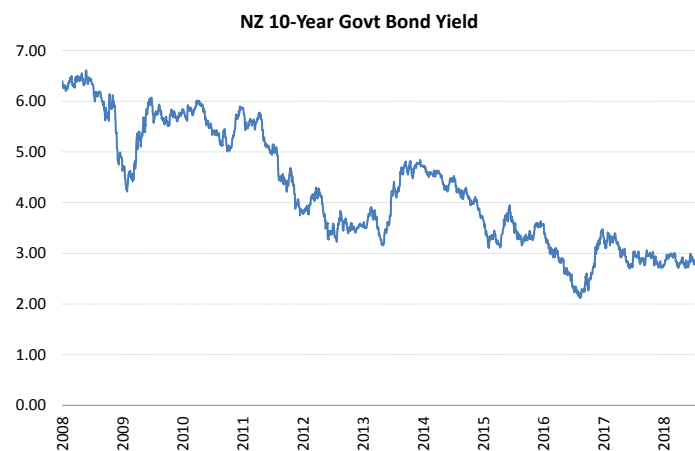
The fund aims to earn a return of the benchmark before fees, expenses and taxes over a rolling three year period.

### 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.

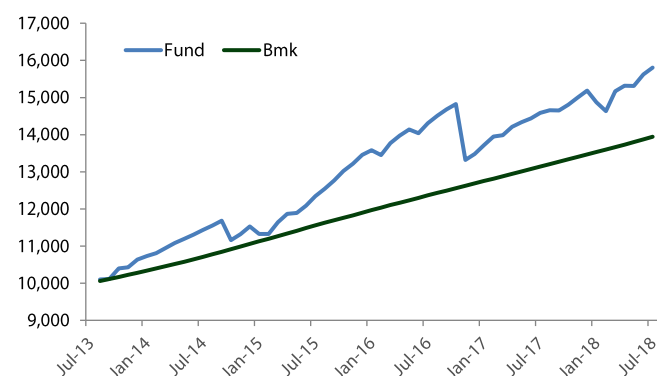


### Performance returns

	Gross <sup>1</sup>	Benchmark <sup>2</sup>	Net <sup>3</sup>
1 month	1.17%	0.51%	1.07%
3 months	3.15%	1.52%	2.55%
1 year	8.37%	6.11%	
2 years (pa)	5.10%	6.19%	
3 years (pa)	8.59%	6.45%	
5 years (pa)	9.59%	6.87%	
10 years (pa)	8.60%	7.23%	

1. Gross returns are before the deduction of fees and taxes of the wholesale fund.
2. Benchmark returns are before the deduction of taxes and no fees.
3. Net returns are before tax but after the deduction of fees and expenses including tax credits (if any), of the retail fund.

### Five-year cumulative performance (gross) <sup>1</sup>



## Key fund facts

<p><b>Strategy launch date</b> October 2007</p> <p><b>Strategy FUM</b> \$77.8m</p> <p><b>Fund structure</b> PIE fund</p> <p><b>Buy/sell spread</b> nil</p>	<p><b>Distributions</b> Generally does not distribute</p> <p><b>Benchmark</b> Bloomberg NZBond Bank Bill Index plus 4.0% per annum</p> <p><b>Hedging</b> Any foreign currency exposures are hedged to NZD within an operational range of 98.5% to 101.5%</p>
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## Fund Commentary

The Option Fund returned 1.17% in July. Interest rate movements in longer-term US Treasury bonds continued to be modest over the month with the 10-year bond moving in an 18 basis point range from a high of 2.99% to a low of 2.81%.

## Compliance

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

## Market Commentary

The movement in Treasury bond yields has not been large enough to cause any of the Fund’s sold option contracts to be ‘struck’. Even though the income received from selling options remains modest it is sufficient to provide the Fund with an acceptable level of returns. If current levels of volatility are maintained, income generated by the Fund should remain 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.

Early in September Federal Reserve officials left US short-term interest rates unchanged and stuck to their plan to gradually lift borrowing costs. Economic activity has been ‘rising at a strong rate’ and unemployment ‘has stayed low’ according to the Federal Reserve Open Market Committee. They went on to say ‘household spending’ and business fixed investment have grown strongly.

While no change to the cash rate was expected a further 0.25% increase in September is likely which if delivered will be the third increase for the year.

President Trump lashed out at the Fed in August saying he wasn’t thrilled it was raising rates. His comments threw a political cloud over the Fed’s decision however the no-change rate announcement was widely anticipated. Fed Chairman Jerome Powell is trying to nurse the second largest US economic expansion on record by slowly reducing the amount of support that monetary policy provides to growth. The US economy is currently riding on a tailwind provided by tax cuts and higher federal spending, though talk of trade wars continues to threaten growth prospects. The uncertainty provided by trade issues has tended to limit the upside of the US 10-year bond trading range, with trade uncertainties unlikely to be resolved quickly we see the movement in bond rates remaining modest. If we are correct, the returns of the fund will remain satisfactory over the months ahead.

## Contact us

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### Important Information

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