

## Product Disclosure Statement

# For an offer of units in the NIKKO AM OPTION FUND

This is a replacement PDS, which replaces the PDS dated 31 May 2018

Dated 19 February 2019

Issued by Nikko Asset Management  
New Zealand Limited

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This document gives you important information about this investment to help you decide whether you want to invest. There is other useful information about this offer on [www.business.govt.nz/disclose](http://www.business.govt.nz/disclose). Nikko Asset Management New Zealand Limited has prepared this document in accordance with the Financial Markets Conduct Act 2013. You can also seek advice from a financial adviser to help you to make an investment decision.

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# 1. Key information summary

## What is this?

This is a managed investment scheme. Your money will be pooled with other investors' money and invested in various investments. Nikko Asset Management New Zealand Limited (**Nikko AM NZ, we, us or our**) will invest your money and charge you a fee for its services. The returns you receive are dependent on our investment decisions and the performance of the investments. The value of those investments may go up or down. The types of investments and the fees you will be charged are described in this document.

## What will your money be invested in?

This PDS is an offer of units in the Nikko AM Option Fund (the **Fund**). The Fund is established within the Nikko AM NZ Investment Scheme (the **Scheme**).

Fund	Description and investment objective	Risk Indicator <sup>1</sup>	Annual fund charges (% p.a. of net asset value (NAV)). All fees and expenses are inclusive of GST where applicable.
Nikko AM Option Fund	<p>The Fund aims to outperform the Bloomberg NZBond Bank Bill Index plus 4% per annum over a rolling three year period before fees, expenses and taxes.</p> <p>The Fund invests in an underlying fund that invests in cash and fixed interest investments, and undertakes a leveraged trading strategy based on selling options on global government bonds. The Fund is a specialist investment strategy and is suitable only for experienced investors who have an investment time frame of three years or longer and are comfortable to accept short sharp periods of high volatility.</p> <p>This Fund has a medium to high level of volatility</p>		<p><b>Fund charges:</b></p> <p>Management fee: 0.96% per annum of the Fund's net asset value (NAV).</p> <p>Estimate of expenses: 0.26% per annum of the Fund's NAV.</p>

<sup>1</sup> As the Fund has not existed for 5 years, the underlying wholesale fund returns for the period from January 2014 to March 2018 have been used to calculate the risk indicator and the fund's actual returns have been used to calculate and fill in the risk indicator for the period from inception (April 2018) to December 2018 and As a result, the risk indicator may provide a less reliable indicator of the potential future volatility of the Fund.

See Section 4, "What are the risks of investing?" for an explanation of the risk indicator and for information about other risks that are not included in the risk indicator. To help you clarify your own attitude to risk, you can seek financial advice or work out your risk profile at [www.sorted.org.nz/tools/investor-kickstarter](http://www.sorted.org.nz/tools/investor-kickstarter).

## Who manages the Scheme and the Fund?

The Manager of the Scheme and the Fund is Nikko AM NZ. See Section 7, "Who is involved?" for more information.

## How can you get your money out?

Investments in the Fund are redeemable.

You may at any time request the redemption of some or all of your investment. In some circumstances, we may suspend or defer withdrawals. See "Withdrawing your investments" under Section 2 for more information.

Your investment in the Fund can be sold but there is no established market for trading these financial products. This means that you may not be able to find a buyer for your investment.

## How will your investment be taxed?

The Fund offered under this PDS is a Portfolio Investment Entity (PIE).

The amount of tax you pay in respect of a PIE is based on your prescribed investor rate (PIR). To determine your PIR, go to [www.ird.govt.nz/toii/pir/workout/](http://www.ird.govt.nz/toii/pir/workout/). See Section 6, "What taxes will you pay?" for more information.

### **Where can you find more key information?**

Nikko AM NZ is required to publish quarterly updates for the Fund. The updates show the returns and the total fees actually charged to investors during the previous year. The latest fund updates are available at [www.nikkoam.co.nz/invest/retail](http://www.nikkoam.co.nz/invest/retail).

The Manager will also give you copies of those documents on request.

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**Image:** Water eroding rocks, Waiotapu Thermal Area, Rotorua, NZ.



## 2. How does this investment work?

This PDS is an offer of units in the Nikko AM Option Fund (the **Fund**). The Fund is a trust established within the Scheme and governed by the Trust Deed effective 1 July 2016 (the **Nikko AM NZ Trust Deed**).

The money you invest buys units in the Fund. When you invest in the Fund, your money is held on trust and pooled with the money of other investors in the Fund. We use this money to buy assets for the Fund on behalf of all investors in the Fund. Assets are selected and managed by a professional investment management team in the manner described in Section 3, "Description of your investment option".

The purchase of units gives you the right to the returns from the assets of the Fund, but does not give you legal ownership of the Fund's assets.

The assets of the Fund are not available to be applied to meet the liabilities of any other fund in the Scheme.

The Fund's unit price is usually calculated on each Business Day by dividing the total net value of the Fund's assets by the number of units on issue in the Fund, rounded to four decimal places.

The Fund's assets are valued independently of us. The value of your investment will be impacted by any change in the value of the assets of the Fund which is reflected in the unit price of the Fund. You can calculate the value of your investment by multiplying the number of units you hold in the Fund by the exit price of a unit. The most recent unit prices are available at [www.nikkoam.co.nz/invest/retail](http://www.nikkoam.co.nz/invest/retail).

Benefits of investing in the Fund include the following:

- your money is managed by our investment professionals; and
- we have access to investment opportunities and markets that may not be accessible to all investors.

### Distributions

The Fund does not currently distribute income or capital gains. Any income or capital gains will be included in the unit price calculated for the Fund.

### Making investments

To invest in the Fund, contact us for an application form.

Please see Section 10 "How to apply" for more information or contact us at [NZenquiries@nikkoam.com](mailto:NZenquiries@nikkoam.com).

The minimum initial investment in the Fund is \$250. The minimum investment amount is subject to change. Further investments must be at least \$20. Further investments can be made by lump sum or regular investments.

We may accept or refuse any application either in whole or part and we are not required to give any reason or ground for such refusal.

### Withdrawing your investments

See section 10 for how to redeem if you are investing via a party other than the Manager, such as a PIP or custodial service.

You can contact us to request a redemption of some or all of your investment at any time.

Nikko AM NZ sets a minimum redemption amount of \$250. The number of units redeemed will be calculated by dividing the dollar amount you request to redeem, less any withdrawal fee (not currently charged), by the applicable exit price of a unit. Any redemption request which would cause an investor's holding in the Fund to fall below \$250 may be deemed by us to be a redemption request in respect of their entire holding in the Fund.

We will deduct from your redemption proceeds an amount equal to any applicable PIE tax on income allocated to redeemed units.

We will pay net proceeds to you as soon as possible after processing the request and in any event no later than 30 days after receipt. We may however suspend or defer withdrawals or delay payment under certain conditions summarised in the Nikko AM NZ Other Material Information document (on the offer register) or as set out in full in the Nikko AM NZ Trust Deed (on the scheme register). In those circumstances, you may have to wait a longer period of time before you can withdraw your investment.

### How to switch between funds

You can request to switch part or all of your investment from this Fund to another fund within the Scheme at any time by contacting us. We may decline or delay the switch without providing a reason. Switches investors can make in any calendar year are limited to 12. Unless you are switching all of your investment, at least \$250 must remain in the Fund. A buy/sell spread may be applicable.

A switch is regarded as a withdrawal from an investment and an acquisition of a new investment. If you make an application to withdraw or switch, we will deduct any PIE tax required from the amount that is withdrawn or switched between the funds and pay any such PIE tax to Inland Revenue.

This PDS is for the Nikko AM Option Fund. Information on other Nikko AM NZ funds not offered under this PDS is provided in the following PDS documents, which can be found at [www.nikkoam.co.nz/invest/retail](http://www.nikkoam.co.nz/invest/retail):

- Nikko AM Cash and Fixed Interest Funds PDS
- Nikko AM Domestic Equity Funds PDS
- Nikko AM Global Equity Funds PDS
- Nikko AM Diversified Funds PDS

### 3. Description of your investment option

Fund	Summary of investment objective and strategy	Target asset mix	Risk Indicator	Minimum suggested investment timeframe
Nikko AM Option Fund	<p><b>Fund Objective:</b> To outperform the Bloomberg NZBond Bank Bill Index plus 4% per annum over a rolling three year period before fees, expenses and taxes.</p> <p><b>Strategy:</b> The Fund invests in the Nikko AM Wholesale Option Fund, managed by Nikko AM NZ, which invests in cash and fixed interest investments, and undertakes a leveraged trading strategy based on selling options on global government bonds. The Nikko AM Wholesale Option Fund earns income from selling the options. The Fund is a specialist investment strategy and is suitable only for experienced investors who have an investment time frame of three years or longer and are comfortable to accept short sharp periods of high volatility.</p> <p>Full details of the strategy, permitted investments and restrictions for the Fund are outlined in the SIPO.</p>	<p>The Nikko AM Option Fund targets 100% investment in the Nikko AM Wholesale Option Fund.</p> <p>The Nikko AM Wholesale Option Fund sells options and invests in cash and Cash Equivalents, New Zealand Fixed Interest and International Fixed Interest.</p>	<p>4<sup>1</sup></p> <p>This Fund has a medium to high level of volatility.</p>	Three years

<sup>1</sup> As the Fund has existed for less than 5 years, the underlying wholesale fund returns for the period from January 2014 to March 2018 have been used to calculate the risk indicator and the fund's actual returns have been used to calculate and fill in the risk indicator for the period from inception (April 2018) to December 2018 and as a result the risk indicator may provide a less reliable indicator of the potential future volatility of the Fund.

We may make changes to the Statement of Investment Policy and Objectives (SIPO) of the Scheme from time to time, after having given reasonable prior written notice to and in consultation with the Supervisor. We consider whether the changes are in investors' best interests and will notify you of any material changes before we make them. Material changes to the SIPO will also be described in the Scheme's annual report.

The current SIPO for the Fund can be found on the Disclose register at [www.business.govt.nz/disclose](http://www.business.govt.nz/disclose) or on our website [www.nikkoam.co.nz/invest/retail](http://www.nikkoam.co.nz/invest/retail).

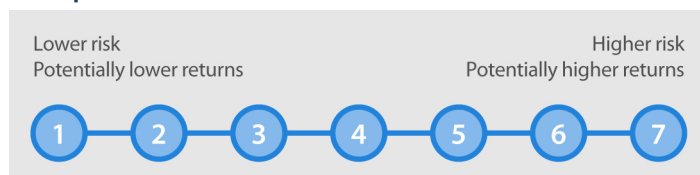
Further information about the assets in the Fund can be found in the Fund Updates at [www.nikkoam.co.nz/invest/retail](http://www.nikkoam.co.nz/invest/retail)

## 4. What are the risks of investing?

### Understanding the risk indicator

Managed funds in New Zealand must have a standard risk indicator. The risk indicator is designed to help investors understand the uncertainties both for loss and growth that may affect their investment. You can compare funds using the risk indicator.

#### Example Risk Indicator



This is an example Risk Indicator. For the Fund Risk Indicator, see the “Key Information Summary” section.

The risk indicator is rated from 1 (low) to 7 (high). The rating reflects how much the value of the fund's assets goes up and down (volatility). A higher risk generally means higher potential returns over time, but more ups and downs along the way.

To help you clarify your own attitude to risk, you can seek financial advice or work out your risk profile at [www.sorted.org.nz/tools/investor-kickstarter](http://www.sorted.org.nz/tools/investor-kickstarter).

Note that even the lowest category does not mean a risk-free investment, and there are other risks (described under the heading “Other specific risks”) that are not captured by this rating.

This risk indicator is not a guarantee of a fund's future performance. The risk indicator is based on the returns data for the fund and the underlying wholesale fund for the period from January 2014 to December 2018. While risk indicators are usually relatively stable, they do shift from time to time. You can see the most recent risk indicator in the latest fund update for the fund.

### General investment risks

Some of the things that may cause the fund's value to move up and down, which affect the risk indicator, are:

**Interest rate risk:** Changes in interest rates. An increase in interest rates results in the capital value of fixed interest investments falling. A decrease in interest rates results in the capital value of fixed interest investments rising.

**Market risk:** Economic, technological, political and legal factors and market sentiment can change. These changes may affect the value of financial products in investment markets, the Fund's investments and the value of the units in the Fund.

**Liquidity risk:** The risk that an investment may not be able to be sold quickly enough to prevent or minimise a loss. A lack of

liquidity may also affect the amount of time it takes to satisfy redemption requests.

**Credit risk:** Interest earning securities represent loans to borrowers that include central and local government, registered banks and companies. Credit risk is the risk that a borrower may default on interest or capital repayments.

**Derivative risk:** We will enter into foreign currency exchange contracts to manage currency exposures. We may also enter into other derivative contracts to manage interest rate and credit exposures. Certain risks arise out of the use of derivatives, including significant gains or losses.

**Cybersecurity and operational risk:** Cybersecurity breaches may allow an unauthorised party to gain access to the Fund's assets, customer data, or propriety information, or cause the Fund or its service providers to suffer data corruption or lose operational functionality. Similar incidents affecting issuers of the Fund's securities may negatively impact performance. Operational risk may arise from human error, error by third parties, communication errors, or technology failures, among other causes.

### Other specific risks

The Fund invests in the Nikko AM Wholesale Option Fund. The Nikko AM Wholesale Option Fund uses a leveraged investment strategy to simultaneously sell call and put options on long dated government bonds. The Nikko AM Wholesale Option Fund can incur significant short term losses quickly due to extreme movements (called “volatility”) in long-term interest rates. As an example of the impact of volatility on the Nikko AM Wholesale Option Fund, when the US Government was downgraded from an AAA to AA+ credit rating in August 2011, the Nikko AM Wholesale Option Fund fell by 29% over the month. When this type of event occurs, the increased volatility which caused the initial loss will also likely result in the Nikko AM Wholesale Option Fund receiving a higher stream of income when new options are sold (where those new options will have higher income). The impact of interest rate volatility is magnified by the use of leverage. For every \$1 in the fund, up to \$6 of call options and \$6 of put options can be sold. The options are sold in pairs, each comprising a call and a put option with the same expiry date. Accordingly, the effective leverage of the fund is 6 times the value of the fund.

This has the potential to negatively impact the performance of the Fund. The Fund is therefore regarded as a specialist investment strategy and we believe it is suitable only for experienced investors who are comfortable to accept short periods of sharp volatility and are investing over a period of three years or longer.

## 5. What are the fees?

You will be charged fees for investing in the Fund. Fees are deducted from your investment and will reduce your returns.

The fees you pay will be charged in two ways-

- Regular charges (for example, annual fund charges). Small differences in these fees can have a big impact on your investment over the long term.
- One-off fees (for example, individual action fees).

### Annual fund charges

	Management Fee (% p.a. of NAV)	Estimate of Expenses (% p.a. of NAV)	Estimated Total Annual Fund Charges (% p.a. of NAV).
Nikko AM Option Fund	0.96%	0.26%	1.22%

**Management fee:** We charge an annual management fee to the Fund of 0.95% per annum of the NAV of the Fund. The management fee is used to pay for the management of the relevant fund's assets, including underlying investment costs, the supervisor's fee and administration costs of the relevant fund (such as audit fees, registry services and unit pricing and accounting services).

**Estimate of expenses:** We estimate the Fund's expenses to be 0.25% per annum of the NAV of the Fund. We have decided to cap the general operating expenses at 0.25% per annum of the Fund's NAV (excluding GST). Extraordinary expenses are not included in this cap, but are included in our estimate when known. "Expenses" may include, among other things, supervisor, custodian, audit and legal fees.

The Fund invests in the Nikko AM Wholesale Option Fund. There is no charge to the Fund for this investment.

The annual fund charges are calculated and accrued daily and reflected in the unit price. The management fee and expenses are paid monthly to us.

There are no performance fees in relation to the Fund.

GST: All fees and expenses are inclusive of GST where applicable.

### Individual action fees and trading costs

There are currently no contribution, establishment, termination, withdrawal or switching fees being charged to the Fund offered under this PDS. We can introduce these fees in the future as set out in the Nikko AM NZ Trust Deed.

### Example of how fees apply to investors

Chris invests \$10,000 in the Nikko AM Option Fund.

He is charged management and administration fees, which work out to about \$122 (1.22% of \$10,000). These fees might be more or less if his account balance has increased or decreased over the year.

**Estimated total fees for the first year**  
Fund charges: \$122

See the latest fund update for an example of the actual returns and fees investors were charged over the past year.

This example applies only to the Fund. If you are considering investing in other funds or investment options in the Scheme, this example may not be representative of the actual fees you may be charged.

### The fees can be changed

We can change fees from time to time and can also add new fees. We will give you at least one month's notice if we increase any fee or commence charging any new fee. Any change to the fees will be made in accordance with the Nikko AM NZ Trust Deed.

Nikko AM NZ must publish a fund update for the Fund showing the fees actually charged during the most recent year. Fund updates, including past updates, are available at [www.nikkoam.co.nz/invest/retail](http://www.nikkoam.co.nz/invest/retail).



## 6. What taxes will you pay?

The Fund is a portfolio investment entity. The amount of tax you pay is based on your prescribed investor rate (PIR). To determine your PIR, go to [www.ird.govt.nz/toii/pir/workout/](http://www.ird.govt.nz/toii/pir/workout/). If you are unsure of your PIR, we recommend you seek professional advice or contact Inland Revenue. It is your responsibility to tell us your PIR when you invest or if your PIR changes. If you do not tell us, a default rate may be applied. If the advised PIR is lower than the correct PIR, you will need to complete a personal tax return and pay any tax shortfall, interest, and penalties. If the default rate or the advised PIR is higher than the correct PIR, you will not get a refund of any overpaid tax.

For more information in relation to taxation refer to the “Nikko AM NZ Investment Scheme – Other Material Information” document on the Disclose register.

## 7. Who is involved?

Nikko Asset Management New Zealand Limited is the Manager of the Fund.

### About Nikko Asset Management New Zealand Limited

Nikko AM NZ is a wholly owned subsidiary of Nikko Asset Management Co., Ltd (**Nikko AM**), headquartered in Tokyo, Japan. Nikko AM is a dedicated global asset manager with investment professionals across the world’s major financial centres. In New Zealand we provide investment management services for domestic assets (equities, bonds, cash and alternatives) through our Auckland-based investment team and contract offshore managers to manage global assets (global equities, global bonds and alternatives).

### Contact details

- Phone: 09 307 6388
- Freephone: 0800 303 308
- Email: [NZenquiries@nikkoam.com](mailto:NZenquiries@nikkoam.com)
- Write: PO Box 3892, Shortland Street, Auckland 1140

### Who else is involved?

	Name	Role
Supervisor	Public Trust	Supervisor of the Scheme under the Financial Markets Conduct Act 2013 and responsible for monitoring Nikko AM NZ’s compliance with its obligations.
Custodian	BNP Paribas Fund Services Australasia Pty Limited (“BNP”)	Appointed by the Supervisor to hold all of the assets of the Fund on behalf of the investors.
Administrator	BNP	Perform services including fund valuation, unit pricing, fund accounting and PIE fund administration.
Registrar	MMC Limited	Perform unit registry services.
Auditor	KPMG	Auditor of the Scheme and the Fund.

## 8. How to complain

Any complaints about the Fund or the Scheme may be referred to the Manager via the contact details provided under Section 7, "Who is involved?".

You can also complain to the Supervisor at:

### Public Trust

Level 9, 34 Shortland Street, Auckland 1010  
PO Box 1598, Shortland Street, Auckland 1140  
0800 371 471

[CTS.enquiry@publictrust.co.nz](mailto:CTS.enquiry@publictrust.co.nz)

[www.publictrust.co.nz/corporate-trustee-services](http://www.publictrust.co.nz/corporate-trustee-services)

The Manager and the Supervisor are both members of the Financial Services Complaints Limited independent dispute resolution scheme.

If you have made a complaint to us and it has not been resolved within 40 days or if you are dissatisfied with the proposed resolution, you can refer it to:

### Financial Services Complaints Limited

Level 4, 101 Lambton Quay, Wellington 6011  
PO Box 5967, Wellington 6145  
Freephone 0800 347 257 or 04 472-FSCL

[www.fscl.org.nz](http://www.fscl.org.nz)

Financial Services Complaints Limited will not charge a fee to any complainant to investigate or resolve a complaint. Further information about referring a complaint to Financial Services Complaints Limited can be found at [www.fscl.org.nz](http://www.fscl.org.nz).

## 9. Where you can find more information

Further information relating to the Scheme, the units and the Fund (for example, financial statements) is available on the offer register and the scheme register at [www.business.govt.nz/disclose](http://www.business.govt.nz/disclose) and a copy of information on the offer register or scheme register is available on request to the Registrar of Financial Service Providers.

You will not be charged any fee to access this information.

An annual statement and PIE Tax Statement will be sent to you or made available through an electronic facility by the end of each June. These provide information such as your balance at year end, change in balance during the year, what fees you have been charged and how much PIE tax has been paid on your behalf.

You can find more information about us and the Fund on our website [www.nikkoam.co.nz/invest/retail](http://www.nikkoam.co.nz/invest/retail).

## 10. How to apply

If you are investing in the Fund directly with us, you will need to contact us to request an application form.

We may accept or refuse any application either in whole or part and we are not required to give any reason or ground for such refusal.

### Investing through a Portfolio Investor Proxy (PIP) or a custodial service

When you invest through your advisor, or a PIP or a custodial service, you will not become a direct investor in the Fund and will not have a direct relationship with us or the Supervisor. Rather, the PIP or the custodial service has the direct relationship with us and will be able to exercise any rights attached to units held.

All reports, notices and other documentation will be sent directly to the PIP or the custodial service and not to you.

When you want to redeem your investment, you need to contact your advisor, PIP, or custodial service.

The PIP and any custodial service may have entered into an arrangement with us in respect of the Fund which may vary the terms and conditions of investment in the Fund. You should contact your PIP or the custodial service for details of:

- the minimum investments or minimum withdrawals required by your PIP or the custodial service, and the consequences of failing to meet those minimums;
- the timing of cut-off times for applications and withdrawals; and
- whether any fees and charges are payable to the PIP or the custodial service (in addition to fees and charges set out in this PDS).

When you invest through a PIP then neither the Manager nor the Supervisor will undertake the following responsibilities, which will instead be undertaken by the PIP:

- calculating and organising payment of tax liability on income attributed to the PIP by applying the PIRs of the underlying investor;
- making adjustments to the units held on your behalf (by requesting the redemption of units) or the distributions (if any) or requiring payments to be made which reflect the tax liability on income attributed to you;
- organising the provision of returns and other information to Inland Revenue; and
- providing us any information concerning the underlying investor that may be relevant to whether the Fund continues to meet PIE eligibility requirements.

If you would like further information on how to invest in the Fund, please contact us at [NZenquiries@nikkoam.com](mailto:NZenquiries@nikkoam.com).