

Nikko AM Wholesale Option Fund

Fund manager

Nikko Asset Management New Zealand Limited (Nikko AM).

Nikko AM is Asia's premier global asset manager. In New Zealand we actively manage NZ\$4 billion of investments for a diverse group of clients, including superannuation schemes, charitable trusts, KiwiSaver scheme providers, corporations and local government along with providing services to financial intermediaries through wrap platforms.

We offer investment management services in domestic sectors (equities, fixed interest and cash) through our Auckland-based investment team and employ offshore managers to manage global sectors (global equities, global bonds and alternative investments).

Fund launch

April 2007. A similar portfolio has been operated by Nikko AM since September 2003.

Investment objective

A gross return of S&P/NZX Bank Bills 90-Day Index plus 4.0% per annum over a rolling three year period.

Investment process

The Fund invests into cash deposits and bank bills with highly rated financial institutions. The assets are then used as collateral security for derivatives, in particular, selling options on long-term NZ, US, UK, Euro bloc or Australian government stock.

Most options are written for one month and provide the institutional purchaser with a payout if interest rates move by more than a prescribed margin in one particular direction. The Fund earns a premium for writing (selling) the options. The Fund will write options on government bonds with maturities between 5 and 15 years.

Structure and taxation

The Fund vehicle is a Unit Trust and Portfolio Investment Entity (PIE) which is priced daily. Unit holders elect their own Portfolio Investor Rate. Information is provided to the IRD and unit holders on an annual basis.

Distributions

At any date for any period fixed by the Manager

Hedging policy

Assets and liabilities hedged to NZD at the discretion of the Manager. Hedging is based on the gross asset value of the Fund.

Management fees and other charges

Investment management fees and performance fees will be negotiated separately with each investor and invoiced outside the Fund.

All Fund statutory and operating costs will be met directly by the Manager.

Estimated performance fee: Any return in excess of NZ 90-day bank bill rate plus 4.0% per annum will be subject to a fee of 15% of excess payable to the manager on an annual basis. The Fund will not operate a high watermark approach.

Buy/sell spread

Nil

Trustee

Public Trust

Custodian

Public Trust as legal custodian, BNP Paribas Fund Services Australasia Pty Limited delegated as functional custodian.

Selected investors only

Participation in the Fund is limited to persons or entities who are New Zealand resident, and:

(a) whose principal business is the investment of money; or

(b) who, in the ordinary course of and for the purposes of their business, habitually invest money;

and, consequently (or for other reasons) do not constitute "the public" for the purposes of the Securities Act 1978 (**Exempt Person**). Nikko AM will not therefore be required to produce a registered prospectus or an investment statement in relation to the proposed investment (such documents otherwise being required were this offer to be made to persons or entities that are not Exempt Persons), and such documents will not be produced accordingly. Investors in the Fund will be required to acknowledge their status as an Exempt Person as part of their subscription in the Fund. Investors in the Fund will also be required to undertake to Nikko AM that any transfers of interests in the Fund will only be to Exempt Persons.

This document is issued by Nikko Asset Management New Zealand Limited (Company No. 606057, FSP No. FSP22562) investment manager and promoter of the products included in this document. 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 habitual investors, or their duly appointed agent, should consult a qualified and appropriately Authorised Financial Adviser and the current Investment Statement, Prospectus or Information Memorandum. Applications to invest will only be accepted if made on an application form attached to that current Investment Statement or Information Memorandum. 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.

General Enquiries: NZenquiries@nikkoam.com | +64 9 307 6363

Nikko AM Wholesale Option Fund

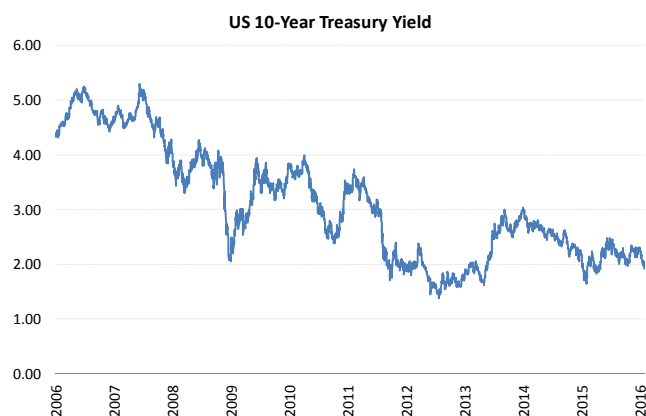
Performance (NZD gross returns)

	Fund %	Investment Objective %	Excess %
1 month	0.94	0.57	0.37
3 months	4.29	1.77	2.52
6 months	10.01	3.55	6.47
1 year	19.90	7.53	12.37
2 years (pa)	12.49	7.59	4.91
3 years (pa)	12.07	7.34	4.73
5 years (pa)	9.14	7.19	1.96

Fund size

\$ 181 million

Commentary



The Nikko AM Wholesale Option Fund returned 0.94% over January. The Fund continues to show little correlation to other asset classes with the return below the strong returns from bond markets, but significantly higher than equity market returns. The gross annual return has moved ahead to 19.9%.

Yields on 10-year US Treasury Bonds have been steadily falling since the end of 2015. Yields closed the year at 2.29% and finished January 36 basis points lower at 1.93%. The new year got off to a rocky start with a big fall in global equity markets resulting in increased market volatility and rising credit spreads. A big fall in oil and other commodity prices added to investor pessimism and the relative attractiveness of bond markets. Weaker Chinese economic data and concerns about the implications of large capital outflows and their impact on China's foreign reserves also played on investors nerves.

US economic data remained on the soft side. Manufacturing indicators, retail sales and durable goods orders are some of the softer indicators that caught the attention of markets and defied the recent strength in employment growth. If further evidence was required that all was not well with the global economy, the ECB's President Draghi indicated the Bank is looking to add to their existing easy monetary policy in March as the Eurozone economy continues to struggle.

The Bank of Japan delivered the biggest shock to the market on the last trading day of the month when they moved to a new negative 10 basis point rate for new reserve deposits from mid-February.

The ultimate aim of all this global stimulus is to increase economic growth and eventually interest rates should follow to higher levels. In our view, we are a long way from that occurring and in this environment it is likely the US Federal Reserve will apply their rate rise strategy cautiously.

We expect the Option Fund to continue to perform well in this environment. The options are relatively short in tenure and the Fund is generally able to recalibrate to changes in interest rates over the course of a month and can cope well when the direction of US 10-year interest rates moves are both up and down. It is when US 10-year rates move quickly and significantly in one direction and do not "bounce back" that provides difficulty. The offset is that if there are times of higher volatility and options are exercised then the corresponding income levels for the Fund also increase which is generally self correcting over time.

Compliance

The Fund complied with its investment mandate during the month.