

## 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\$4.8 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.

**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. The performance fee is not in the unit price of the Fund - any performance fee will be negotiated separately with each investor and invoiced outside the Fund.

### Buy/sell spread

Nil

### Trustee

Public Trust

### Custodian

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

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#### 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.

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**Nikko AM Wholesale Option Fund**

Performance (NZD gross returns)

	Fund %	Investment Objective %	Excess %
1 month	2.39	0.57	1.82
<b>3 months</b>	<b>2.35</b>	<b>1.72</b>	<b>0.63</b>
6 months	7.85	3.50	4.35
<b>1 year</b>	<b>18.29</b>	<b>7.41</b>	<b>10.88</b>
2 years (pa)	12.17	7.60	4.58
<b>3 years (pa)</b>	<b>11.34</b>	<b>7.36</b>	<b>3.97</b>
5 years (pa)	8.45	7.17	1.28

One of the factors that have supported the US economy has been low long term borrowing rates. Those rates have been held down by money flowing into US bonds from global investors as US rates remain relatively attractive compared to negative yields in many other countries.

We remain of the view that US Treasury bonds will trade in a modest range over the next year, providing a good operating environment for the Option Fund.

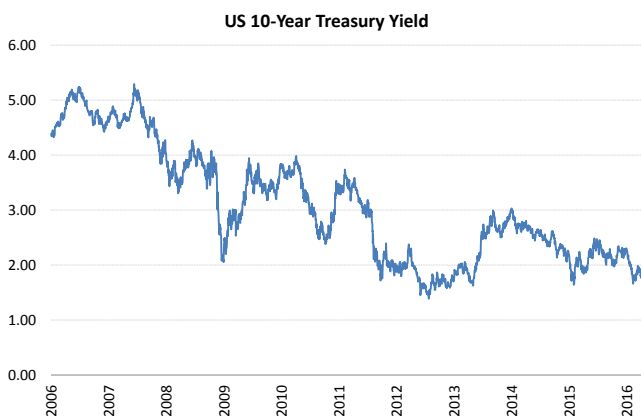
**Compliance**

The Fund complied with its investment mandate during the month.

Fund size

\$ 184 million

Commentary



The Nikko AM Wholesale Option Fund performed strongly over March gaining 2.39%. The trading range for US 10-year Treasury bonds was a modest 30 basis points, ranging from 1.7% to 2.0% resulting in bond yields comfortably trading within the ranges established by the Fund's written call and put options.

Federal Reserve officials held off from raising borrowing costs and scaled back forecasts for how high rates will rise this year, citing the potential impact from weaker global growth and financial market turmoil on the US economy. The Federal Open Market Committee kept the target range for the Federal Funds Rate at 0.25% to 0.5%. Updated projections of the Federal Funds Rate at 0.875% at the end of 2016 imply two 0.25% increases this year, down from four. In our view, even two increases may be one too many.

Speaking to the Economic Club of New York, Federal Reserve Chair Janet Yellen said the Central Bank is monitoring a global economic slump, sharply lower oil prices and stock market turbulence which she said had hurt some US consumers and key economic sectors such as manufacturing. Yellen said that given the risk, the Fed will "proceed cautiously" in raising rates.

Most economists expect no hike at the next policy meeting to be held 26-27 April 2016.