

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.

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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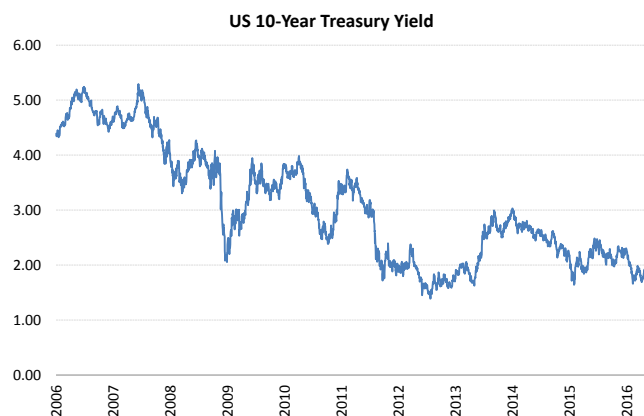
Performance (NZD gross returns)

	Fund %	Investment Objective %	Excess %
1 month	1.47	0.52	0.95
3 months	2.89	1.67	1.22
6 months	7.30	3.46	3.83
1 year	17.73	7.29	10.44
2 years (pa)	12.27	7.57	4.71
3 years (pa)	11.26	7.35	3.91
5 years (pa)	8.13	7.17	0.96

Fund size

\$ 182 million

Commentary



The Nikko AM Wholesale Option Fund continued to perform well, gaining 1.47% over April. US 10-year treasury bonds traded over a 26 basis point range between a high of 1.94% and low of 1.68% before closing at 1.83% – virtually unchanged over the month. The modest yield movements meant 10-year bonds traded comfortably within the ranges established by the Fund’s written call and put options.

The run of US economic data was mixed with the key trend being one of strong employment growth amidst a sluggish economy. This was evident with Q1 2016 GDP growth running at a modest annualised 0.5% following the previous 1.4% annualised gain in Q4 2015.

The US Federal Reserve was not expected to raise rates again at its April meeting and that proved to be the case with only modest changes to the published statement. The Federal Open Market Committee (FOMC) seeks to foster maximum employment and price stability. The FOMC currently expects that, with gradual adjustments to the stance of monetary policy, economic activity will expand at a modest pace and labour market indicators will continue to strengthen. Inflation is expected to remain low in the near term but recover to around 2% over the medium term as the transitory effects of declines in energy and import prices dissipate and the labour market strengthens further. The FOMC reiterated that the actual path of US rates will depend on economic outlook and incoming data.

We remain of the view that US Treasury bond yields will trade in a modest range over the next year which should create a good operating environment for the Fund.

Compliance

The Fund complied with its investment mandate during the month.