

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.

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)

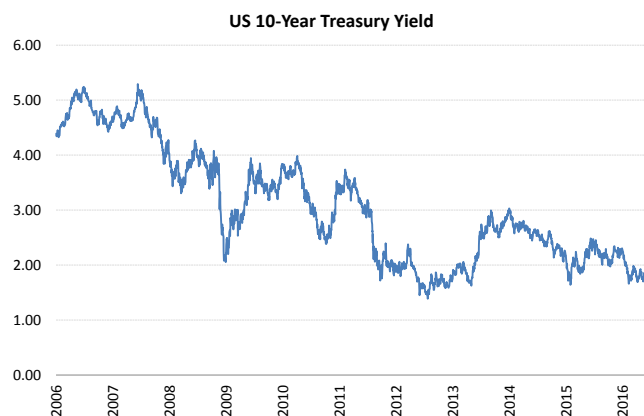
	Fund %	Investment Objective %	Excess %
1 month	1.23	0.54	0.68
3 months	5.16	1.64	3.52
6 months	6.98	3.41	3.56
1 year	18.92	7.20	11.72
2 years (pa)	12.41	7.54	4.87
3 years (pa)	12.31	7.34	4.97
5 years (pa)	8.28	7.16	1.12

It will not come as a surprise to markets that the Fed is going to raise short term rates, the main uncertainty is the exact timing. As mentioned above, the Fed will likely act cautiously and not want to push rates to levels that may choke off signs of resurgent economic growth. We are therefore of the opinion yields on US 10-year Treasury bonds will continue to trade in modest ranges over the months ahead. Modest yield movements in either direction or a trend higher or lower in interest rates is an ideal environment for the Fund. Large yield movements over a short time period is the environment where the Fund's returns become more volatile.

Fund size

\$ 182 million

Commentary



The Nikko AM Wholesale Option Fund continued to perform well, gaining 1.23% over May. US 10-year Treasury bonds traded in a narrow 19 basis point range – from a high of 1.89% to a low of 1.70% before closing the month virtually unchanged at 1.85%. The modest interest rate movements meant the 10-year bond comfortably traded within the ranges established by the Fund's written call and put options. The docile market has seen volatility reduce which lead to lower income receipts from writing options, however, the return generated by the Fund continued to be at an acceptable level in an environment of low yielding investment alternatives.

The US Federal Reserve is getting nearer the time for a further rate rise, however, it is not expected they will shock markets with the magnitude of monetary policy tightenings. The Federal Reserve Chair, Janet Yellen, said during a panel discussion at Harvard University "it's appropriate ... for the Fed to gradually and cautiously increase our overnight interest rate over time, and probably in the coming months such a move would be appropriate".

One reason for action is that after a couple of weak quarters "growth looks to be picking up from the various data that we monitor" according to Ms Yellen. The Fed next meets on 14-15th June, however, that is also just before the UK BREXIT vote on 23rd June. Given that an exit vote could be disruptive for financial markets, it is possible the Fed delays any rate rise decision to their July or September meeting.

Compliance

The Fund complied with its investment mandate during the month.