

# Nikko AM Wholesale Option Fund

## Fund manager

Nikko Asset Management New Zealand Limited (Nikko AM NZ).

In New Zealand we actively manages around NZ\$5 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

To invest the portfolio in the authorised investments such that the portfolio earns a gross return of Bloomberg NZBond Bank Bill Index plus 4.0% per annum over a rolling three year period before fees.

## Benchmark

Bloomberg NZBond Bank Bill Index plus 4.0% per annum (from 1 July 2016)

## 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

The Fund vehicle is a Portfolio Investment Entity (PIE) which is priced daily. Investors elect their own Portfolio Investor Rate. Information is provided to the IR and investors on an annual basis.

## Distributions

Generally does not distribute but may do so at Nikko AM NZ's discretion.

## Currency management

All premium income is converted into NZD upon receipt and any currency margin deposits are hedged to NZD within an operational range of 98.5% to 101.5%.

## 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:** 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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### Performance (NZD gross returns)

	Fund	Benchmark*	Excess
1 month	1.91%	0.56%	1.35%
3 months	2.40%	1.64%	0.76%
6 months	5.36%	3.34%	2.02%
1 year	15.91%	7.00%	8.90%
2 years (pa)	11.86%	7.46%	4.40%
3 years (pa)	12.68%	7.33%	5.35%
5 years (pa)	7.20%	7.16%	0.04%

\* S&P/NZX Bank Bills 90 Day Index plus 4.0% per annum prior to 1 July 2016

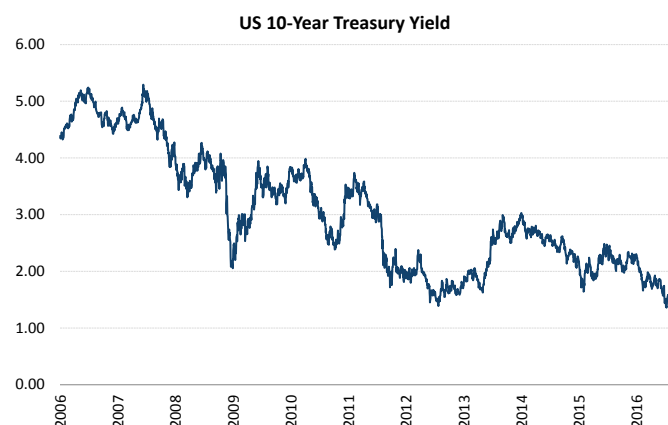
### Fund size

NZ\$186 million

### Compliance

The Fund complied with its investment mandate during the month.

### Commentary



The Nikko AM Wholesale Option Fund bounced back after a poor June to record a gain of 1.91% over July.

Financial market sentiment improved considerably over the month. In late June the post Brexit damage to global risk appetite proved short lived and market participants concluded that it was a UK centric problem, with little spill-over risk outside the UK. In addition, it seems likely that global monetary policy will be easier-for-longer in the Brexit world. Given this sentiment it is not surprising US Treasury bond yields remain low and seem likely to stay low for the remainder of the year.

Over the month the US 10-year bond traded in a 31 basis point range from a low of 1.32% to a high of 1.63% before closing July at 1.45%, virtually unchanged since the end of June.

Expectations of further global policy easing and, in the case of the US, little chance of policy tightening kept a bid tone to global bond markets with historical lows being reached in a number of countries.

With low global rates being the norm it is hard to see US rates rising significantly. This sanguine view was reinforced after the release of second quarter US GDP which grew 1.2% annualized, when 2.6% was expected. US economic growth is now tracking at a 1% rate in 2016, the weakest start to a year since 2011. This disappointing growth momentum must play on the mind of Fed officials and a further delay in US monetary policy tightening is becoming more likely.

As we have mentioned in previous commentaries we believe this environment remains favourable for the Option Fund, especially when viewed in context of a modest outlook for returns from other sectors of financial markets.