

Nikko AM Wholesale Option Fund

Fund manager

Nikko Asset Management New Zealand Limited (Nikko AM NZ). In New Zealand we actively manage 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.

The fund can write options up to two months. These 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 NZ domiciled Portfolio Investment Entity (PIE) which is priced daily. Investors elect their own Prescribed 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.

Buy/sell spread

Nil

Trustee

Public Trust

Custodian

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

Disclaimer | This document is issued by Nikko Asset Management New Zealand Limited (Company No. 606057, FSP No. FSP22562), the investment manager of the Nikko AM NZ Investment Scheme and the Nikko AM NZ Wholesale Investment Scheme. 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 wholesale investors (in accordance with Schedule 1, Clause 3 Financial Markets Conduct Act 2013), or their duly appointed agent, should consult an Authorised Financial Adviser and the relevant Product Disclosure Statement or Fund Fact Sheet. 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.

Performance (NZD gross returns)

	Fund	Benchmark*	Excess
1 month	0.51%	0.50%	0.02%
3 months	2.25%	1.50%	0.75%
6 months	5.10%	3.03%	2.07%
1 year	1.05%	6.23%	-5.18%
2 years (pa)	8.10%	6.57%	1.53%
3 years (pa)	8.27%	7.00%	1.27%
5 years (pa)	10.02%	7.01%	3.02%

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

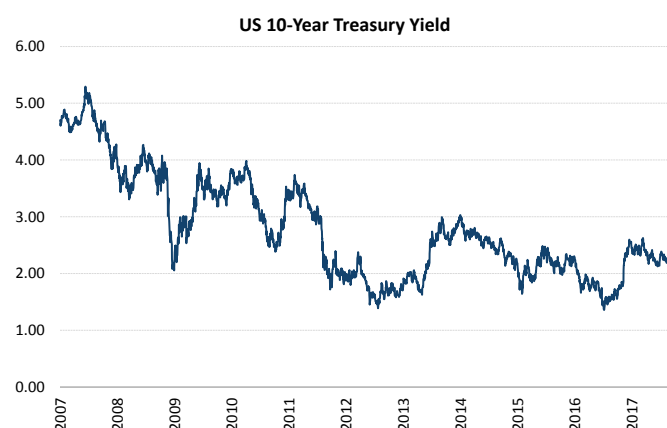
Fund size

NZ\$179 million

Compliance

The Fund complied with its investment mandate during the month.

Treasury yield



Fund Performance

The Option Fund returned 0.51% over August. Global bond rates were generally lower over the month with the US 10 year Treasury bond closing 18 basis points lower at 2.12%. Bond yields traded over a 24bps range, from 2.32% to an intraday yield of 2.08%. Option contracts were not exercised during the month, however by month end the market rate was within 10 basis points of some call strike levels. The fund continued to sell a number of two month options to take advantage of higher premium levels as short term volatility pricing remains modest. This should set the fund up to deliver a satisfactory level of returns over the months ahead.

Market Commentary

US 10-year rates ended the month lower as the market became less convinced that US monetary policy would tighten much further as the US continued to face a backdrop of low inflation. After North Korea fired a missile over Japan, the 10 year rate reached an intraday low of 2.08%, the lowest level of 2017. With tensions remaining high the 'flight to safety' trade has continued to keep US treasury yields low. Trump was also in the headlines a lot, particularly his lacklustre response to racial violence in Charlottesville, Virginia. A number of politicians and business leaders tried to distance themselves from Trump, adding to the view that his policy agenda remained well off track. Tackling the US debt ceiling and tax reform are the latest two issues to be negotiated however of more immediate concerns is how the White House deals with the impact of Hurricane Harvey. The devastation in Texas gives Trump the opportunity to show the American people he is a man of action and a true leader. Fail in this task and his support will fade further.