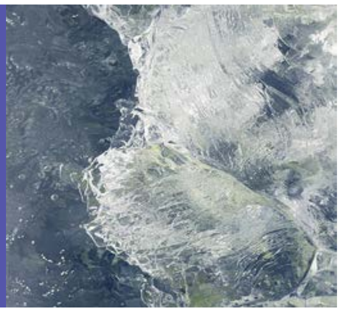
nikko am
Nikko Asset Management

NIKKO AM GLOBAL EQUITY UNHEDGED FUND

Monthly Fact Sheet 31 December 2016



Investment objective

The objective of the Fund is to construct a portfolio of permitted investments that outperform the Fund's benchmark return by 3.0% per annum over a rolling three year period before fees, expenses and taxes.

Benchmark

MSCI All Countries World Index (net dividends reinvested), expressed in NZD (unhedged). Prior to 1 June 2014 MSCI World Index (net dividends reinvested). NZD unhedged

Fund description

The Fund aims to provide investors with long term growth from an actively managed investment portfolio selected from global equity markets.

The Fund gains its investment exposure by investing into the Nikko AM Wholesale Global Equity Unhedged Fund.

For the Nikko AM Wholesale Global Equity Unhedged Fund we utilise a multi-manager global equity strategy managed by a specialist team based in Sydney and Singapore. Investment personnel from Nikko AM Australia, Singapore and New Zealand are responsible for the ongoing selection, monitoring and review of all underlying investment managers.

Currency management

All currency exposures created as a consequence of global equity market investment remain unhedged to NZD.

Management fees and other charges

A management fee of 1.25% per annum calculated as a percentage of the net asset value of the Fund will be calculated and deducted from the Fund.

Nikko AM may also recover expenses (including the Trustee fee) from the Fund up to a maximum of 0.25% per annum of the Fund's net asset value. An estimate of expenses as at the date of publication is 0.09% per annum.

Buy/sell spread

0.07% / 0.07%

Strategic asset allocation

	Target	Range
Nikko AM Wholesale Global Equity Unhedged Fund	100%	95% ⇔ 100%
Cash on call for investor transactions	0%	0% ⇔ 5%

Refer to the SIPO for full details of permitted investments and restrictions.

Performance

(NZD returns; before tax, after fees and expenses)

1 month	3 months	6 months	1 year
3.21%	2.43%	6.38%	1.39%

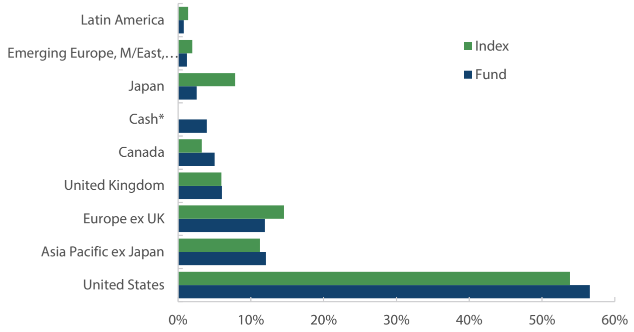
2 years (pa)	3 years (pa)	5 years (pa)	Inception (pa)*
8.72%	8.52%		12.00%

* January 2013

Manager allocation

Manager	Range	Actual*
WCM Investment Mgmt	10-30%	26.04%
Principal Global Investors	10-30%	25.85%
Epoch Investments Partners Inc	10-30%	21.64%
Davis Selected Advisors LP	10-30%	22.63%
Nikko AM Limited (Derivatives)	0-10%	2.69%
Nikko AM Limited (Cash)	0-10%	1.15%

Geographical allocation



Emerging markets **10.9% of Fund**

Sector allocation (% of fund)

Sector	Fund	Benchmark
Information Technology	17.5	15.5
Consumer Discretionary	16.1	12.1
Financials	11.5	18.7
Health Care	9.9	11.1
Consumer Staples	9.4	9.5
Industrials	9.3	10.6
Energy	8.4	7.4
Materials	5.1	5.3
Cash*	3.9	0.0
Telecommunication Services	3.4	3.6
Utilities	3.2	3.2
Real Estate	2.3	3.1

* includes the sum of the underlying managers' cash allocations

Top 10 holdings (% of fund)

Company	Fund (%)	MSCI (%)	Country
Amazon.com	2.9	0.8	US
Alphabet Class C	2.0	0.6	US
Wells Fargo & Co	1.7	0.7	US
Encana Corp	1.7	0.0	Canada
Taiwan Semiconductor	1.5	0.4	Taiwan
Facebook	1.5	0.7	US
Berkshire Hathaway Class B	1.3	0.5	US
Apache Corp	1.2	0.1	US
JPMorgan Chase & Co	1.2	0.8	US
TD Ameritrade	1.2	0.0	US

Commentary

Following the election of Donald Trump as US President and Trump's early proposals of more expansionary fiscal policy in the US, inflation expectations climbed, bond yields rose and equity markets moved higher - in Developed Markets at least. Within these rising markets, there was a meaningful sector and investment style rotation. In sympathy with Government bonds, sectors offering relatively defensive cash-flows were heavily punished this quarter. Healthcare, Telecoms, Utilities and Real Estate underperformed meaningfully as a result. Cyclical sectors were the relative winners, with Energy, Basic Materials and Bank shares performing strongly as hopes for a reflation trade mounted. 'Value' outperformed 'growth', following eight years of underperformance.

For the December quarter, the MSCI All Countries World index gained 5.53% (NZD, unhedged). Value outperformed Growth by a very large margin (about 800 bps), while Quality Growth stocks trailed the benchmark by about 250 bps. While Quality Growth has outperformed for most of the last 3 years, it lagged during the fourth quarter as lower quality stocks surged ahead. Inflationary pressures were also evident in commodities this quarter. Oil prices spiked higher (after OPEC eventually managed to agree a production cut), Copper gained 16% and Iron Ore surged 46%. Part of this recovery was due to a marked reacceleration in Chinese infrastructure investment, along with hopes for increased infrastructure investment in the US.

The Fund returned 2.43% (net of fees) in the December quarter, trailing the benchmark by 310 bps. All four managers struggled, with Quality (WCM) getting punished the most. Growth (PGI) also fell out of favour due to style rotation into cyclical sectors. Although Value outperformed, the Value managers (Davis and Epoch) couldn't match the benchmark's return due to underexposure to Financials which performed exceptionally well in November and December, as well as Epoch's large overweight to high-yielding Telecoms and Utilities which underperformed. Looking at individual manager performance over the quarter, WCM (-1.63%) felt the brunt of the rotation away from Quality. While TD Ameritrade (up 30%) and Tractor Supply (up 19%) added value, most of WCM's holdings suffered over the quarter. The largest detractors from performance were Mercadolibre, Cerner Corp, Novozymes and HDFC Bank, all of which declined more than 10% over the 3-month period. While Epoch (3.61%), Davis (3.27%) and PGI (1.89%) all managed positive returns over the quarter, they all lagged the very strong performance by the benchmark. That is largely due to underexposure to cyclical or low quality stocks which performed extremely well during November and December.