

Nikko AM Wholesale Core Equity 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

October 2007 – a similar portfolio has been operated by Nikko AM NZ since March 1992.

Investment objective

To construct a portfolio of authorised investments that outperform the Fund's benchmark return by 3.0% per annum over a rolling three year period before fees.

Benchmark

S&P/NZX 50 Index Gross with Imputation Credits

Investment process

Nikko AM NZ is an active, style neutral manager with a lower risk approach to investment. Our core equity portfolio is constructed and managed with a blend of value and growth companies, with a modest Australian exposure (maximum 20% permitted).

Structure and taxation

The Fund vehicle is a NZ domiciled Portfolio Investment Entity (PIE) which is priced daily. Investors elect their own Prescribed Investor Rate. The Fund invests directly into tradeable capital market securities. Whilst the majority of the return is "excluded income" there will be a portion of interest income, dividends not fully imputed, and certain ASX listed shares will not fit the criteria for trading gains/losses to be excluded. Information is provided to the IR and investors on an annual basis.

Distributions

Generally on calendar quarters, or at any date for any period determined by the Manager.

Currency management

Foreign currency exposures created as a consequence of capital markets investment may be hedged to NZD at the Manager's discretion with an operational range of 0% to 105%.

Management fees and other charges

Investment management 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

0.35% / 0.35%

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 | 0.02% | -0.17% | 0.19% |
| 3 months | -6.37% | -6.40% | 0.03% |
| 6 months | 0.48% | 0.40% | 0.08% |
| 1 year | 11.12% | 10.10% | 1.02% |
| 2 years (pa) | 13.87% | 12.55% | 1.32% |
| 3 years (pa) | 15.91% | 14.71% | 1.20% |
| 5 years (pa) | 18.44% | 17.51% | 0.93% |
| 10 years (pa) | 8.10% | 6.91% | 1.19% |

Fund size

NZ\$245 million

Attribution

| What helped | What hurt | | |
|------------------|-----------|-----------------|----|
| NZ Refining | OW | Air New Zealand | NH |
| Ryman Healthcare | UW | Comvita Ltd | OW |
| Mainfreight Ltd | OW | Infratil Ltd | OW |

OW: overweight; UW: underweight; NP: neutral position; NH: no holding

Top 10 holdings

| | |
|-----------------------------------|--------------------------|
| Fletcher Building Ltd | Summerset Group Holdings |
| Contact Energy Ltd | Infratil Limited |
| AK International Airport | Meridian Energy |
| Fisher & Paykel Healthcare | Z Energy |
| Spark New Zealand | Restaurant Brands |
| Number of holdings in fund | 31 |

Sector allocation (%)

| | Fund | Index |
|----------------------------|------|-------|
| Health Care | 20.9 | 15.8 |
| Utilities | 19.0 | 15.6 |
| Industrials | 13.3 | 15.3 |
| Consumer Discretionary | 12.6 | 9.8 |
| Materials | 9.0 | 9.6 |
| Telecommunication Services | 8.9 | 10.2 |
| Energy | 7.6 | 4.3 |
| Consumer Staples | 4.4 | 4.2 |
| Real Estate | 2.5 | 9.6 |
| Information Technology | 1.3 | 2.3 |
| Cash | 0.5 | 0.0 |
| Financials | 0.0 | 3.3 |

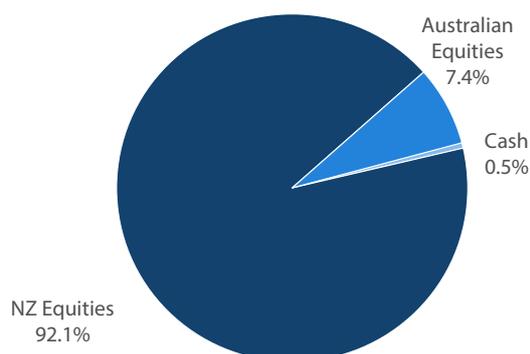
Hedging

Australian listed stocks are unhedged at the date of this Fact Sheet.

Compliance

The Fund complied with its investment mandate during the month.

Asset allocation



Commentary

The final quarter of 2016 continued the themes of surprise and volatility prevalent for much of the year. The bond market sell off had a significant impact on the high yielding New Zealand equity market which ended the quarter down 6.4% as measured by the S&P/NZX 50 index. The Australian market significantly outperformed the New Zealand market with the S&P/ASX 200 index up 5.2% and the US and UK markets were also strong, up 3.4% and 3.5% respectively.

The Fund performed in-line with the index over the quarter and out-performed over the month.

The position in **NZ Refining Company** (NZR) which rose 6.1% over the quarter as refining margins improved and the NZ dollar fell assisting the earnings outlook for the company. The Fund's large underweight in **Ryman Healthcare** (RYM) contributed positively to performance with valuation support still a question. **Mainfreight** (MFT) performed very strongly, up 17.8% supported by the company's first investor day and a positive first half result and outlook.

The Funds nil position in Air NZ (AIR) detracted from performance with the share price up 18% notwithstanding the challenging operating environment.

Infratil (IFT) performed poorly over the quarter down 13.1% and detracting value. The performance of portfolio companies, Trustpower and Perth Energy were the main detractors within the half year result released during the quarter. The initial performance of Tilt Renewables (TLT) which was spun out of Trustpower has also disappointed the market.

Comvita (CVT) detracted from performance falling 29%. Sentiment has become negative for Comvita post Chinese regulatory changes and the potential impact for their products' market.

During the quarter the Fund exited its investment in Fonterra, Mirvac Group and Tegel Group. The proceeds were used to add to the investment in **Spark** (SPK), **Aristocrat Leisure** (ALL), **Restaurant Brands** (RBD) and **Pacific Edge** (PEB). The Fund also re-invested into **Fisher & Paykel Healthcare** (FPH) and introduced a small holding in **Tilt Renewables** (TLT).

(**Bold** denotes stock held in portfolio)