nikko am
Nikko Asset Management

Nikko AM Wholesale Global Equity Unhedged 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. 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).

Investment manager

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.

Fund launch

October 2008

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

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

Distributions

Does not distribute, but may do so at Nikko AM NZ's discretion.

Currency management

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

Trustee

Public Trust

Custodian

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

Structure and taxation

The Fund vehicle is a Portfolio Investment Entity (PIE) which is priced daily. Investors elect their own Prescribed Investor Rate. Each investor's return is subject to the foreign investment taxation regime, under the Fair Dividend Rate approach. Information is provided to the IR and investors on an annual basis. The securities selected by the global managers are directly held by this Fund. This is advantageous to tax-paying investors as it enables them to utilise foreign withholding taxes.

Investment strategy

The investment strategy is underpinned by a philosophy of bottom-up stock picking. In order to achieve the high performance outcomes in a risk controlled manner, the strategy is to outsource the stock picking to a range of exceptional international investment managers. Although the managers follow their own particular investment strategies, they are blended in such a way as to target superior active and risk-adjusted returns.

Fund Structure

The underlying managers have long-term track records and an expectation to consistently perform throughout the investment cycle and hence aim to deliver benchmark outperformance. The specialist manager line-up and strategic ranges for each are represented in the table overleaf.

Management fees

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.

Performance fee

Performance fees will be negotiated separately with each investor and invoiced outside the Fund.

Buy/sell spread

0.07% / 0.07%

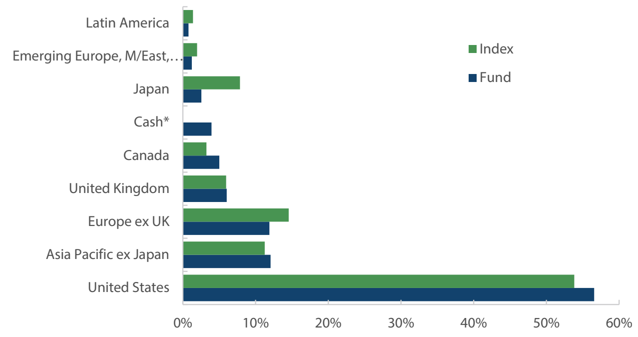
Performance (NZD gross returns)

	Fund	Benchmark	Excess
1 month	2.69%	3.85%	-1.16%
3 months	1.74%	5.53%	-3.79%
6 months	5.43%	8.83%	-3.40%
1 year	3.14%	5.90%	-2.76%
2 years pa	10.11%	8.65%	1.46%
3 years pa	10.01%	9.03%	0.98%
5 years pa	12.75%	12.50%	0.25%

Fund size

NZ$547 million

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

Manager allocations

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%

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 1.74% in the December quarter, trailing the benchmark by 379 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.

Compliance

The Fund complied with its investment mandate during the month.