

# Nikko AM Wholesale SRI 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

January 2008 – a similar portfolio has been operated by Nikko AM NZ since August 2001

## Investment objective

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

## Benchmark

S&P/NZX 50 Index Gross

## Investment process

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

In addition, the Fund has a negative screen to exclude liquor, tobacco, armaments and gambling equities.

## Structure and taxation

The Fund vehicle is a NZ domiciled Portfolio Investment Entity (PIE) which is priced daily. Investors select 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 that 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	1.99%	2.53%	-0.54%
3 months	5.32%	4.65%	0.67%
6 months	6.56%	6.01%	0.55%
1 year	9.49%	8.18%	1.30%
2 years (pa)	14.02%	12.88%	1.14%
3 years (pa)	13.82%	12.14%	1.69%
5 years (pa)	17.04%	15.72%	1.32%

## Fund size

NZ\$16 million

## Attribution

What helped	What hurt		
A2 Milk	OW	Metlife Care Ltd	OW
Sky Network TV	NH	Comvita Ltd	OW
Port of Tauranga	NH	Restaurant Brands	OW

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

## Top 10 holdings

Contact Energy Limited	Infratil limited
Fisher & Paykel Healthcare	Metlifecare
Spark New Zealand	A2 Milk
AK International Airport	Summerset Group Holdings
Fletcher Building	Restaurant Brands
<b>Number of holdings in fund</b>	<b>30</b>

## Sector allocation (%)

Sector	Fund	Index
Health Care	24.5	16.8
Utilities	17.9	15.8
Industrials	12.1	15.6
Telecommunication Services	7.6	10.5
Consumer Staples	6.9	5.5
Energy	6.8	4.1
Materials	6.6	7.3
Consumer Discretionary	6.3	9.0
Cash	4.2	0.0
Real Estate	4.1	9.1
Information Technology	3.0	2.9
Financials	0.0	3.4

## Hedging

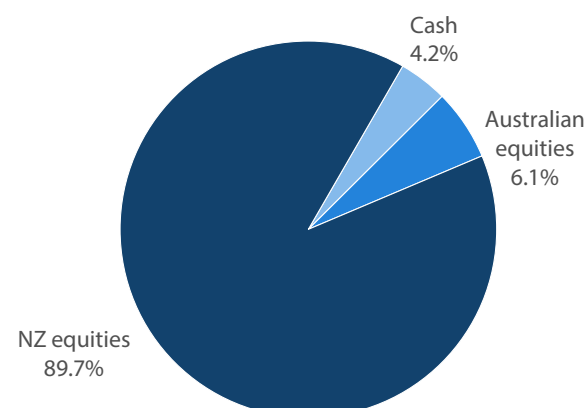
Australian listed stocks are unhedged

## Compliance

The Fund complied with its investment mandate during the month.

## Asset allocation

Cash includes call cash, income due and settlements



## Commentary

Despite continued concerns around North Korean tension, globally equities continued their strong year with the MSCI World index up 1.3% for the month. The S&P/NZX 50 index was up 2.5% and ahead of the Australian S&P/ASX 200 index which was up 1.0%.

The fund performed strongly during April to keep pace with the index. The strongest contribution came from **A2 Milk** (ATM) which returned 13.0% for the month following a relatively modest 5% upgrade to their revenue guidance for the year to June. Although the upgrade was modest it continues the positive track record to business momentum and underpins the stock.

The fund's nil position in Sky Network Television provided relative added value at the stock drifted back against the strong market return.

On the downside the fund's position in **Metlifecare** (MET) detracted from performance after major shareholder, **Infratil** (IFT), sold down their stake from 19.9% to nil at an 8% discount to market. This saw the stock down 5.2% for the month but does not undermine our positive view of the Metlifecare.

**Comvita** (CVT) detracted from performance with stock falling ~18% after the company further downgraded their expectations for the full year. Their expectations are now to make an operating loss for the year ended June (but a reported profit the year).

**Restaurant Brands** (RBD) detracted from performance as the stock fell back despite meeting our expectations for their full year results announcement in April. The outlook and opportunities for Restaurant Brands look compelling in Australia and further afield.

During the month the fund exited its position in Mirvac Group following a strong period of performance versus our expectations. The fund re-introduced a position Xero (XRO) with the outlook to cashflow break even now imminent and the expected market reaction is likely to be positive. Additionally the fund added to the existing holding in Metro Performance Glass (MPG). The stock was added at \$1.28 and quickly rebounded to close at \$1.38.

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