

NIKKO AM CORE EQUITY STRATEGY

Assets are held in the Nikko AM Wholesale Core Equity Fund. The Nikko AM Core Equity Fund (retail) and Nikko AM KiwiSaver Core Equity Fund invest in units in the wholesale fund, which the commentary refers to.

Market Overview

- Low interest rates outweighed global macro concerns to push equity markets higher.
- The United States S&P 500 index rose 1.2%, the Japanese Nikkei 225 index increased 2.3%, the FTSE 100 index fell 0.2%, the ASX 200 index was up 2.4% and the MSCI World index ended the quarter up 0.9% all in local currency.
- The S&P/NZX 50 index continues to perform well against our international peers, up 4.4% for the quarter and 25% year to date.
- Bond yields continued to fall globally with the NZ 10 year bond ending the quarter at 1.09% and the Australian 10 year bond at 1.02%.

Fund Highlights

- The fund ended the quarter up 4.43%
- Key positions that added value were overweights in Summerset and Contact Energy and an underweight in Auckland International Airport. Overweights in Z Energy and Vista Group and an underweight in Ryman Healthcare detracted from value

Performance

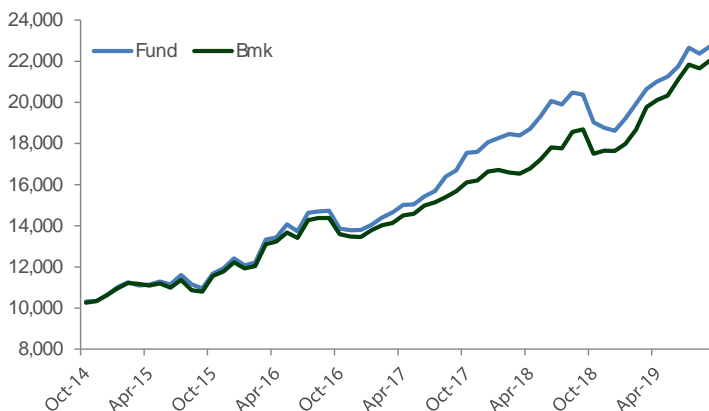
	One month	Three months	One year	Three years (p.a)	Five years (p.a)	Ten years (p.a)
Wholesale ¹	1.56%	4.43%	11.49%	15.54%	17.84%	14.95%
Benchmark ²	1.79%	4.36%	17.96%	15.30%	17.12%	14.62%
Retail ³	1.48%	3.93%	10.21%	14.05%	16.32%	
KiwiSaver ³	1.55%	4.20%	11.33%			

1. Returns are before tax and before the deduction of fees

2. Benchmark: S&P / NZX 50 Index Gross (with Imputation Credits). No tax or fees.

3. Returns are before tax and after the deduction of fees and expenses and including tax credits (if any).

Five Year Cumulative Performance, \$10,000 invested^{1, 2}



Portfolio Manager

Stuart Williams,
Head of Equities, CA



Stuart joined Nikko AM in 2014, he is responsible for the Domestic Equities team and covers the Industrials, Healthcare and Financials sectors. Stuart has over 20 years' experience across the industry with a track record in portfolio management of both benchmark relative and high conviction funds.

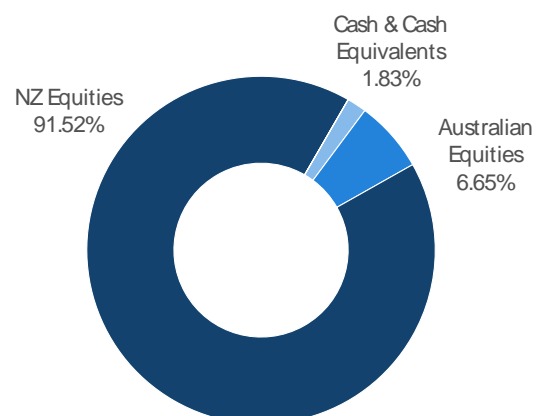
Overview

The Core Equity strategy seeks growth opportunities by investing in New Zealand and Australian equity markets. Our local equity portfolio management team hand-pick stocks that they believe have potential for growth of income and capital.

Objective

The fund aims to outperform the benchmark return by 3% per annum before fees, expenses and taxes over a rolling three year period.

Asset Allocation



Attribution to Performance (quarter)			
What Helped:		What Hurt:	
Summerset Group	OW	Z Energy	OW
Vista Group	NH	Ryman Healthcare	NH
Ingenia Communities	OW	A2 Milk Company	OW
Top 10 Holdings			
The A2 Milk Company	11.30%	Auckland Int Airport	5.84%
Contact Energy	9.66%	Fletcher Building	4.89%
Spark New Zealand	9.24%	Z Energy	4.88%
Fisher & Paykel Healthcare	7.25%	Summerset Group	4.76%
Infratil	6.95%	Mainfreight	3.64%
Number of holdings			32

Sector Allocation	Fund	Benchmark
Utilities	22.07%	20.16%
Health Care	16.01%	19.42%
Consumer Staples	12.66%	10.77%
Communication Services	10.25%	9.75%
Industrials	10.00%	16.10%
Energy	8.76%	2.37%
Consumer Discretionary	7.81%	3.27%
Materials	5.76%	3.99%
Real Estate	2.77%	10.25%
Information Technology	2.08%	1.53%
Cash	1.83%	0.00%
Financials	0.00%	2.39%

Market Commentary

Equity markets generally ended the quarter higher with the low interest rate environment outweighing trade tariffs between China and the United States, concerns around global growth, Hong Kong, Brexit and an attack on a Saudi Arabia oil facility. The United States S&P 500 index rose 1.2%, the Japanese Nikkei 225 index increased 2.3%, the FTSE 100 index fell 0.2%, the ASX 200 index was up 2.4% and the MSCI World index ended the quarter up 0.9%. The S&P/NZX 50 index continues to perform well against its international peers, up 4.4% for the quarter and 25% year to date. Companies with June half or year ends reported results during the quarter which on balance were in line with or better than expected although outlook statements were cautious.

Fund Commentary

The largest positive contributors to relative return were overweights held in **Summerset (SUM)**, **Ingenia Communities Group (INA)**; and a nil holding in Vista (VGL).

SUM rose 20.2% after delivering a result that showed continued demand and price growth for retirement units. INA continued its recent run adding 26.0% (in AUD) on the back of a good earnings result. VGL disappointed the market and dropped 36.3%. Their earnings guidance was well below market expectations and their previous guidance.

The largest negative contributors were overweights in **Z Energy (ZEL)** and **A2 Milk (ATM)**; and a nil position in Ryman (RYM).

ZEL lost 11.4% after downgrading its earnings guidance due to increasing retail competition and margin pressure. RYM rose 13.1% on no new company specific information. ATM produced another result which demonstrated ongoing, stellar earnings growth. In addition they hosted their first ever investor day, located in Shanghai. Yet the stock still retraced over the period due to growing concerns around the future cost required to meet their growth ambitions. Also the company's strict interpretation of what is strategically sensitive meant they left some investor day attendees without the colour or comfort they hoped to receive.

Key portfolio changes in the month included adding to **Sky Television (SKT)**, **Meridian Energy (MEL)** and **Sanford (SAN)**. Chorus was added to the portfolio during the month although remains underweight. **Napier Port Holdings (NPH)** was also added at its initial public offering then sold out later in the quarter following a strong run.

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

Key Fund Facts

Distributions		Estimated annual fund charges (incl. GST)		
Wholesale fund:	Calendar quarter	Wholesale:	Negotiated outside of fund	
Retail fund:	March and September	Retail:	1.02%, refer PDS for more details	
KiwiSaver fund:	Does not distribute	KiwiSaver:	0.97%, refer PDS for more details.	
Hedging		Buy / Sell spread	Strategy size	Strategy Launch
Foreign currency exposures may be hedged to NZD at the Manager's discretion within an operational range of 0% to 105%. Currently, the fund's foreign currency exposure is unhedged		0.29% / 0.29%	\$442.98m	October 2007

Compliance

The Fund complied with its investment mandate and trust deed during the month.

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