

Fund manager

Nikko Asset Management New Zealand Limited (Nikko AM).

Nikko AM is Asia's premier global asset manager. We actively manage over NZ\$4.8 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).

Portfolio Managers

Stuart Williams, Head of Equities – 1 year tenure. Stuart has wide ranging experience in all aspects of the investment management industry developed over more than 18 years working for ANZ Investments and its predecessors. He has spent eight years performing detailed research and developing investment recommendations on listed companies in both New Zealand and Australia. Stuart has a strong track record in portfolio management of both benchmark relative and high conviction funds. He joined the Auckland-based team in August 2014.

James Lindsay, Senior Portfolio Manager – 16 years tenure. James had a number of years experience in sharebroking prior to becoming an Australasian Equity Analyst at Royal & SunAlliance Asset Management in Wellington. He joined the Auckland-based team in 1999 as an Equity Analyst, before being promoted to the role of Domestic Equities Manager in May 2001 and to Senior Portfolio Manager in April 2012.

Fund launch

January 2010 (a similar portfolio has been operated by Nikko AM since March 1992).

Investment objective

The objective of the Fund is 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, expenses and taxes.

Benchmark

S&P/NZX 50 Index Gross with Imputation

Investment philosophy

Nikko AM 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).

The Fund currently obtains investment exposures by investing in the Nikko AM Wholesale Core Equity Fund, a wholesale unit trust managed by Nikko AM.

Structure and taxation

The Fund vehicle is a Unit Trust and Portfolio Investment Entity (PIE) which is priced daily. Unit holders elect their own Portfolio Investment Rate. Information is provided to the IRD and unit holders on an annual basis.

PIE eligibility

Nikko AM may take any action it deems appropriate to ensure the Fund remains eligible to be a PIE. This includes the ability of Nikko AM to compulsorily withdraw a unit holder's units and pay the proceeds to that unit holder's nominated bank account.

Distributions

Semi-annual. Last business days of March and September.

Hedging policy

Assets and liabilities are hedged to NZD at the discretion of the Manager.

Investment restrictions

Nikko AM Wholesale Core Equity Fund – the wholesale unit trust that the Nikko AM Core Equity Fund invests into.

Asset class	Range
New Zealand equities	75% – 100%
Australian equities	0% – 20%
Cash	0% – 5%

Management fees and other charges

A management fee of up to 0.75% per annum calculated as a percentage of the gross asset value of the Fund will be calculated and deducted from the Fund. This fee is calculated daily and is payable to Nikko AM. The management fee may be reduced or waived at our discretion.

Nikko AM may also recover expenses (including the Trustee fee) up to a maximum of 0.25% per annum from the Fund.

Buy/sell spread

0.40% / 0.40%

Trustee

Public Trust

Custodian

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

Minimum investment

Initial investment \$5,000

Further investments \$1,000

The Manager may accept applications for investments below the minimum investment amount at its discretion.

Nikko AM NZ Unit Trusts (Retail)

Fund Summary

Nikko AM Core Equity Fund

31 January 2016

Performance

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

1 month	3 months	6 months	1 year
-2.82%	3.26%	3.19%	7.58%
2 years (pa)	3 years (pa)	5 years (pa)	Inception (pa)*
13.15%	13.28%	12.72%	10.92%

* May 2010

Top 10 holdings

Fisher & Paykel Healthcare	Infratil Limited
Contact Energy Limited	Summerset Group Holdings
Fletcher Building Limited	SkyCity Entertainment Group
Spark New Zealand Limited	NZ Refining Company
Meridian Energy Limited	Ryman Healthcare
Number of holdings in portfolio	32

Asset allocation

New Zealand equities	88.5%
Australian equities	7.9%
Cash	3.6%

Sector allocation

	Fund %	Index %
Consumer discretionary	9.5	10.4
Consumer staples	3.0	3.1
Energy	6.7	4.5
Financials	5.2	13.7
Healthcare	23.4	15.4
Industrials	9.2	14.7
Information technology	2.3	2.5
Materials	8.4	8.2
Telecommunications	7.8	10.7
Utilities	20.9	16.8
Cash	3.6	-

Attribution to performance – January 2016

What helped	What hurt
Xero Limited	Infratil Limited
Nuplex Industries Limited	ANZ Banking Group Limited
Airwork Holdings Limited	Kiwi Property Group

Largest deviations from Index

Overweight	Underweight
Summerset Group Holdings	Auckland International Airport
Infratil Limited	Kiwi Property Group
NZ Refining Company	Mighty River Power

Commentary

Markets had a very volatile start to 2016 as they were impacted by the likes of oil and resource prices continuing to tumble, Japan moving to negative rates and continuing concerns around the Chinese economy. While the MSCI World index fell 6%, the New Zealand market was one of the better performers globally, down only 2.4% (S&P/NZX 50 Index) while the Australian market (S&P/ASX 200 Index) declined 5.5%.

The Fund modestly underperformed the market in January. The Fund's nil holding in Xero (XRO) reversed the value detracted from the portfolio recently as the stock fell by around \$2.00 from \$19.80. Nuplex Industries also added to relative performance with the stock falling around 12% as investors worried about the generally deteriorating outlook for growth.

Auckland Airport (AIA) added modest value to the Fund as it halted from its recent strong price run up. Notwithstanding the ever improving migration statistics, the current valuation looks stretched given the regulatory landscape.

Mighty River Power, which was sold from the Fund in December, fell in January adding relative performance. The fall was driven by poor operational statistics released to the market. TradeMe fell over the month as investors questioned the underlying earnings support, which we consider quite anaemic, given the recent strong price movement.

Infratil (IFT) sold off and detracted from performance. There were no material news releases but the volatile nature of markets undoubtedly impacted the price support for the company.

Summerset Holdings (SUM) and **Metlifecare (MET)** both sold off and detracted performance following a round of sharebroker notes focused on the risks in the New Zealand property market.

Rio Tinto (RIO) sold off over the month, continuing the theme from the end of CY15. The worries of slowing global growth and falling iron ore prices out-weighed the strong capital position, best in class cost performance and emerging dividend support, to fall over the month.

(bold denotes stock held in portfolio)

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