

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.

Performance

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

| 1 month | 3 months | 6 months | 1 year |
|--------------|--------------|--------------|-----------------|
| 0.88% | 2.03% | 8.50% | 6.23% |
| 2 years (pa) | 3 years (pa) | 5 years (pa) | Inception (pa)* |
| 12.68% | 13.28% | 12.57% | 10.93% |

* 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 | Auckland International Airport |

Number of holdings in portfolio 34

Asset allocation

| | |
|----------------------|-------|
| New Zealand equities | 90.9% |
| Australian equities | 7.9% |
| Cash | 1.2% |

Sector allocation

| | Fund % | Index % |
|------------------------|--------|---------|
| Consumer discretionary | 10.0 | 10.3 |
| Consumer staples | 2.9 | 2.9 |
| Energy | 7.1 | 4.2 |
| Financials | 5.4 | 13.2 |
| Healthcare | 23.5 | 15.7 |
| Industrials | 9.4 | 15.0 |
| Information technology | 2.9 | 2.4 |
| Materials | 8.8 | 8.4 |
| Telecommunications | 7.7 | 11.1 |
| Utilities | 21.1 | 16.8 |
| Cash | 1.2 | - |

Attribution to performance – February 2016

| What helped | What hurt |
|----------------------|--------------------------------|
| Xero Limited | Auckland International Airport |
| Air New Zealand | Ebos Group Limited |
| Diligent Corporation | Nuplex Industries Limited |

Largest deviations from Index

| Overweight | Underweight |
|--------------------------|--------------------------------|
| Summerset Group Holdings | Auckland International Airport |
| NZ Refining Company | Trade Me Group |
| Infratil Limited | Kiwi Property Group |

Commentary

Global equity markets over the month of February struggled, falling in the first half of the month on rising risk aversion before recovering somewhat, although finishing the month generally lower. Markets were weighted down by a global sell-off in bank stocks, a weakening economic backdrop, particularly from China, deflation fears in Europe and concerns over Brexit fears over the upcoming British referendum on EU membership. The NZX50 Index outperformed global markets rising 1.01% and the S&P / ASX 200 Index fell 1.76%.

Xero, which is now a modest holding, continued to fall over the month in line with comparative companies globally. The fall in the stock price towards more reasonable valuation levels resulted in the Manager re-introducing a small position back into the Fund.

Air New Zealand (nil holding) fell over the month despite delivering another very strong earnings and operational report. The price was down on news of an increasing number of competitors adding capacity into New Zealand.

Diligent performed very strongly following the announcement of a takeover bid which the directors and major shareholders support. The Fund benefitted from the near 20% price increase.

Metlifecare performed very well over the month having released their half year earnings numbers. In particular, the marked increase in the asset backing surprised the market positively.

Auckland Airport (underweight) detracted value as the stock rallied strongly, circa 10% over the month. All aspects of its performance were strong according to their earnings numbers that were released during February.

EBOS positively surprised the market and the stock rallied 16% which detracted from performance given the Fund's nil holding. Questions remain over the sustainability of the growth in the core business, notwithstanding the recent track record of acquisition-driven growth. Nuplex (nil holding) rallied strongly on the back of a conditional take-over bid. The stock was up 21% in February, but the offer remains both conditional and non bind, however the NPX board assess the offer as "attractive".

In addition to re-introducing **Xero**, **Orion Healthcare** was added to the portfolio following a positive announcement for their US operations. The Fund's position in Chorus was sold following a strong period of performance.

(bold denotes stock held in portfolio)

This document is issued by Nikko Asset Management New Zealand Limited (Company No. 606057, FSP No. FSP22562) investment manager and promoter of the products included in this document. This information is for the use of researchers, financial advisers and wholesale clients. This material has been prepared without taking into account a potential investor's objectives, financial situation or needs and is not intended to constitute financial advice, and must not be relied on as such. Investors should consult an appropriately qualified financial adviser and the current Investment Statement, Prospectus or Information Memorandum. Applications to invest will only be accepted if made on an application form attached to that current Investment Statement or Information Memorandum. Past performance is not a guarantee of future performance. While we believe the information contained in this document is correct at the date of presentation, no warranty of accuracy or reliability is given and no responsibility is accepted for errors or omissions including where provided by a third party.

General Enquiries: NZenquiries@nikkoam.com | +64 9 307 6363