Nikko Asset Management

Nikko AM NZ Unit Trusts (Retail) Fund Summary

Nikko AM Global Equity Unhedged Fund 29 February 2016

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).

Investment manager

We utilise a multi-manager global equity strategy managed by a specialist team based in Sydney and Singapore who work as part of Nikko Asset Management's Portfolio Solutions Team. 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

June 2012 (a similar portfolio has been operated by Nikko AM since October 2008).

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

MSCI All Countries World Index expressed in NZD (unhedged)

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. Each unit holder's return is subject to the foreign investment taxation regime, under the Fair Dividend Rate approach. Information is provided to the IRD and unit holders on an annual basis.

The Fund gains its exposure by investing in the Nikko AM Wholesale Global Equity Unhedged Fund. The securities selected by the global managers are directly held by the Nikko AM Wholesale Global Equity Unhedged Fund. This structure is advantageous to tax-paying unit holders as it enables them to utilise foreign withholding taxes.

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.

Trustee

Public Trust

Custodian

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

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.

The underlying managers have long-term track records and a demonstrated ability to consistently perform throughout the investment cycle and hence aim to deliver benchmark outperformance.

Underlying managers

Below are the investment ranges for the underlying managers in which the Fund currently invests in.

Manager	Range
WCM Investment Management	10-30%
Principal Global Investors	10-30%
Epoch Investment Partners	10-30%
Davis Advisors	10-30%
Derivatives – Nikko AM Limited	0-10%
Cash – Nikko AM Limited	0-10%

The underlying managers may change without notice.

Distributions

The Fund does not distribute income.

Hedging policy

Unhedged

Management fees and other charges

A management fee of up to 1.25% 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

0.07% / 0.07%

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.

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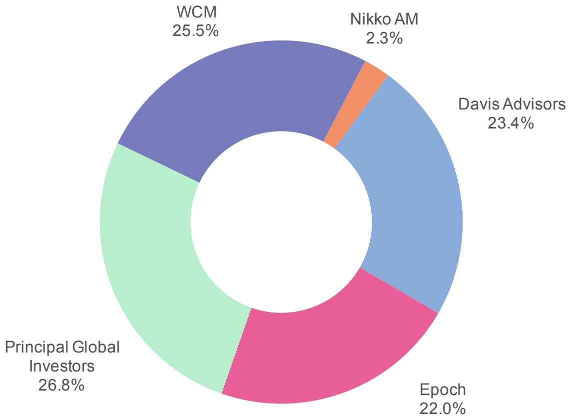
Performance

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

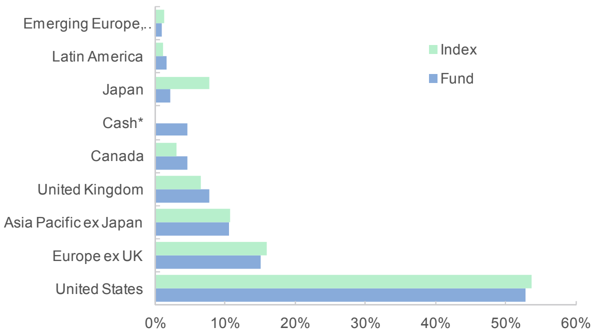
1 month	3 months	6 months	1 year
-1.71%	-10.08%	-7.41%	3.18%
2 years (pa)	**3 years (pa)**	**5 years (pa)**	**Inception (pa)***
10.55%	12.65%	n.a.	13.51%

* January 2013

Manager allocation



Geographical allocation



* includes the sum of the underlying managers' cash allocations

Top 10 holdings

Amazon (US)	Novo Nordisk (Denmark)
Facebook (US)	Apple Inc (US)
Alphabet, Class C (US)	Cooper Companies (US)
Alphabet, Class A (US)	Encana (Canada)
Taiwan Semiconductor (Taiwan)	JP Morgan Chase (US)

Sector allocation

	Fund %	Index %
Consumer Discretionary	15.9	13.0
Consumer Staples	11.2	10.8
Energy	5.6	6.4
Financials	12.9	20.2
Health Care	9.8	12.2
Industrials	10.7	10.5
Information Technology	17.6	14.8
Materials	4.0	4.7
Telecommunication Services	4.2	4.0
Utilities	3.6	3.4
Cash*	4.5	-

* includes the sum of the underlying managers' cash allocations

Commentary

February was another weak month for equity markets, continuing the pullback in global markets that started in mid 2015 – the MSCI All Countries World Index (NZD; unhedged) returned -2.55% for the month. All but two sectors (Materials and Industrials) finished the month in negative territory. The biggest drag on the market was the Financials sector (down >4%), and bank stocks in particular. This was driven by the weakening economic backdrop, particularly in China, after a raft of negative macroeconomic reports. Deflation fears – primarily in Europe – also weighed on sentiment, and additionally, there were concerns over the potential British withdrawal from the European Union (Brexit). Growth fears in China, and weak macroeconomic data were key reasons for the poor performance in Japan. Japanese GDP fell 1.4% quarter-on-quarter. Similarly Eurozone PMI fell, and new orders in particular were very weak. On the other hand, the Materials sector was strong (after having been a consistent underperformer of late), driven by rising metal prices, and iron ore in particular. Oil markets were mixed despite news that Russia, Saudi Arabia, Venezuela and Qatar have decided to freeze oil production at January 2016 levels. Leading the market lower with Financials, were Health Care (-3.2%) and Information Technology (-3.1%). At the regional level, the best markets were Canada (+1.7%) and Latin America (+1.8%) while laggard regions were Japan (-4.7%), Europe ex UK (-4.1%) and Emerging Asia (-3.2%).

The Fund outperformed its benchmark in February with most of the outperformance from stock selection, with some detraction from regional and sector allocation. The large underweight to Financials was the largest contributor to the outperformance. Overweights in TD Ameritrade (+2.3%) and BM&F Bovespa (+12%) added the most value, as well as not holding Bank of America (-13%). In the Telecommunications sector, positions in BCE (+5.4%) and Centurylink (+18%) added, while Tyson Foods (+19%) was the standout among Consumer Staples. Sectors that detracted from performance were Consumer Discretionary (largely Amazon.com) and Materials. Amazon is the Fund's largest holding and its decline of 7.6% was a drag on performance. The performance of stocks within the Materials sector was mixed, with Mining stocks generally outperforming non-Mining stocks. Although the Fund's overweight positions in Novozymes (+2.8%) and CSR (+15%) added value, more value was detracted from not holding Mining names like Glencore (+43%) and Barrick Gold (+37%) which surged on the back of a bounce in metal prices.

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