

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 March 2016

Performance

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

1 month	3 months	6 months	1 year
8.85%	6.71%	20.50%	17.70%
2 years (pa)	3 years (pa)	5 years (pa)	Inception (pa)*
16.05%	15.73%	14.13%	12.36%

* May 2010

Top 10 holdings

Fisher & Paykel Healthcare	SkyCity Entertainment Group
Contact Energy Limited	Summerset Group Holdings
Fletcher Building Limited	Auckland International Airport
Spark New Zealand Limited	NZ Refining Company
Infratil Limited	Metlifecare Limited

Number of holdings in portfolio **36**

Asset allocation

New Zealand equities	88.1%
Australian equities	8.9%
Cash	3.0%

Sector allocation

	Fund %	Index %
Consumer discretionary	9.7	10.4
Consumer staples	3.6	2.9
Energy	7.2	4.1
Financials	6.1	13.1
Healthcare	23.9	16.6
Industrials	10.0	14.6
Information technology	3.1	2.3
Materials	9.2	8.6
Telecommunications	7.2	10.7
Utilities	17.0	16.7
Cash	3.0	-

Attribution to performance – March quarter 2016

What helped	What hurt
Xero Limited	NZ Refining Company
Metlifecare Limited	Ebos Group Limited
Z Energy Limited	Infratil Limited

Largest deviations from Index

Overweight	Underweight
Contact Energy	Auckland International Airport
Summerset Group Holdings	Mighty River Power
Infratil Limited	Kiwi Property Group

Commentary

Equities went through a roller coaster ride over the first quarter of 2016. The S&P/NZX50 index rallied 8.78% in March bringing the quarterly return to 7.21%. The S&P/ASX 200 Index rose 4.73% over the month, but remained down year to date at -2.75%. The Reserve Bank of New Zealand cut the Official Cash Rate (OCR) twice including a surprise cut in early March.

Xero which is a substantial underweight in the portfolio fell 22% over the quarter as global market participants looked to reduce risk. In particular the global tech/software sector was down sharply which benefitted our relative performance versus the index. **Metlifecare** performed strongly over the quarter on the back of the release of their first half profit. The operating metrics were generally very strong with the NTA improving 13% over the period.

Diligent received a takeover bid during the quarter which valued the company at \$7.39 versus circa \$5.64 at the time, a 31% premium which benefitted the Fund. The directors were in favour of deal to sell to Insight Venture Partners. **NZ Refining (NZR)**, despite reporting a strong profit for year and declaring a final dividend of 20cps, fell sharply (17%) over the quarter. The fall in price, which detracted from performance, was based on the company's guidance for increasing operating costs and increased capital expenditure.

Not holding **EBOS Group** detracted from performance as the company reported a strong first half profit result across all the key metrics. **EBOS** rallied 24% over the quarter and continuing what has been a very impressive run for the company. **Infratil** was volatile over quarter but ended flat versus a strong New Zealand market and hence detracted from performance.

During the quarter the Manager exited the final holding of **Chorus** following a strong period of performance and a small residual holding in **APN Media**. We re-introduced **Xero** and **Orion Healthcare** following periods of considerable price weakness despite both companies giving generally positive updates. We introduced **Vista Group** taking advantage of a sell down of stock by the company's founders at a modest discount. Additionally we commenced a small position **360 Capital Industrial Fund** to gain exposure to their property management and funds management expertise.

(bold denotes stock held in portfolio)

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