

### Fund manager

Nikko Asset Management New Zealand Limited (Nikko AM).

Nikko AM is Asia's premier global asset manager. We actively manage over NZ\$4.9 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 – 17 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

0.35% / 0.35%

### 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
0.74%	10.61%	14.21%	18.18%
2 years (pa)	3 years (pa)	5 years (pa)	Inception (pa)*
15.19%	14.98%	13.79%	12.32%

\* May 2010

**Top 10 holdings**

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

**Number of holdings in portfolio** **38**

**Asset allocation**

New Zealand equities	88.9%
Australian equities	10.3%
Cash	0.8%

**Sector allocation**

	Fund %	Index %
Consumer discretionary	10.4	10.5
Consumer staples	4.0	3.3
Energy	7.2	4.3
Financials	6.4	13.2
Healthcare	25.4	16.4
Industrials	9.4	14.2
Information technology	2.7	1.6
Materials	9.4	9.0
Telecommunications	7.3	10.7
Utilities	17.0	16.8
Cash	0.8	-

**Attribution to performance – April 2016**

What helped	What hurt
Air New Zealand	Z Energy
Auckland International Airport	NZ Refining
Rio Tinto Limited	Sky Network Television

**Largest deviations from Index**

Overweight	Underweight
Summerset Group Holdings	Auckland International Airport
Contact Energy	Sky Network Television
Infratil Limited	Mighty River Power

**Commentary**

Global equity markets posted generally positive returns in April with materials and energy performing particularly well on the back of a jump in commodity prices. The Australian market was strong with the S&P/ASX 200 up 3.4%, driven by a 15.4% jump in the S&P/ASX 200 Resource Index. The New Zealand market (S&P/NZX 50 Index) was up 1.0%.

Not holding Air New Zealand (AIR) benefited the Fund as the stock fell 14% in April as a result of their previously announced loan to Virgin Australia and subsequent intention to sell their stake in Virgin, along with news from other airlines about further competition on AIR routes.

The overweight position in **Rio Tinto** (RIO) benefited the Fund. RIO rallied strongly over the month (up approximately 19%) supported by a generally improving global outlook, which in turn pushed the spot iron price substantially higher.

Our underweight position in **Auckland International Airport** (AIA) added value as the company fell without any specific information releases. The elevated valuations and strong period of performance is likely to have been based on offshore flows.

**Z Energy** (underweight) performed strongly (up ~16%) over the month detracting from performance. The price strength proved to be an accurate indication that the company would ultimately succeed in achieving regulatory approval for their bid to access Caltex NZ.

Sky Network Television detracted as the stock continued to rally, following our sale of the Fund's holding. The company continues to face numerous competitive headwinds, but the prospect of capital initiatives is appealing to investors.

**NZ Refining** fell further in April, given a mild deterioration in expected refining margins and hence profits, together with a planned shutdown of the hydrocracker.

**Ryman Healthcare** (underweight) rallied over the month. There was no news from the company ahead of their full year result however the market is expecting a positive update from the company in May.

During the month we exited Western Areas and Sky Network TV given limited valuation support primarily. We introduced **Aristocrat Leisure**, a gaming machine manufacturer and systems developer based in Australia, supported by a reasonable valuation and strong global business momentum.

*(bold denotes stock held in portfolio)*

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