

Fund manager

Nikko Asset Management New Zealand Limited (Nikko AM).

Nikko AM is Asia's premier global asset manager. We actively manage NZ\$5.0 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.

Nikko AM NZ Unit Trusts (Retail)

Fund Summary

Nikko AM Core Equity Fund

31 May 2016

Performance

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

1 month	3 months	6 months	1 year
4.63%	14.72%	17.05%	22.20%
2 years (pa)	3 years (pa)	5 years (pa)	Inception (pa)*
18.29%	17.63%	14.66%	12.98%

* May 2010

Top 10 holdings

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

Number of holdings in portfolio **32**

Asset allocation

New Zealand equities	89.8%
Australian equities	6.7%
Cash	3.5%

Sector allocation

	Fund %	Index %
Consumer discretionary	12.4	10.3
Consumer staples	3.9	2.7
Energy	7.5	4.6
Financials	2.8	12.9
Healthcare	26.2	17.4
Industrials	9.9	14.0
Information technology	1.6	1.7
Materials	8.5	9.2
Telecommunications	7.0	10.5
Utilities	16.7	16.7
Cash	3.5	-

Attribution to performance – May 2016

What helped	What hurt
Sky Network TV Limited	NZ Refining Company Limited
Metlifecare Limited	Japara Healthcare
Fisher & Paykel Healthcare	Ingenia Communities

Largest deviations from Index

Overweight	Underweight
Summerset Group Holdings	Ryman Healthcare
Contact Energy	Mighty River Power
Infratil Limited	Kiwi Property Group

Commentary

Global equity markets generally posted solid returns in May, with the UK FTSE being one of the few exceptions as concerns for Brexit hurt its performance. After recent US Federal Reserve statements many global economists have brought forward their expectations for the next US rate hike from late 2016 to either June or July. This did not unsettle financial markets, as it did the first time a rate increase was close.

The New Zealand market (S&P/NZX 50 index) was up 3.3% and the Australian market (S&P/ASX 200) was similarly strong up 3.1% for the month.

The Fund outperformed the NZX50 Index over the month providing a return of 4.63% for the month.

Four positions were sold from the Fund over the month – Metro Performance Glass, Western Areas, Rio Tinto and Vista Group. On the other side **Sky Network Television** was reintroduced into the portfolio after the stock fell more than 25% intra month. By month end the stock had recovered 12.5% and significantly aided Fund absolute and relative performance. Other strong performers included retirement operator **Metlifecare** (up 14.7%) and **Fisher & Paykel Healthcare** (+14.2%). Recent Fund entrant **Aristocrat Leisure** (+26.2%) also contributed to performance following a strong result driven by solid market share gains in both the US and Australia. The company's innovation and strong research and development pipeline has driven these share gains. The Fund's largest electricity position, **Contact Energy**, rose a solid 6% over the month and was the best performing generator retailer over the period.

On the economic front, the release of the New Zealand Budget provided surprisingly robust news on the state of the local economy and this may temper the chances of the RBNZ lowering the OCR at their next meeting. The New Zealand dollar rose 1.86% against the Australian dollar on top of the +1.75% rise from April. This detracted from performance due to Australian dollar investments currently being unhedged. Against the US dollar, the New Zealand dollar fell 3.1% as Fed Chair Yellen signalled a return to rises in interest rates.

(bold denotes stock held in portfolio)

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