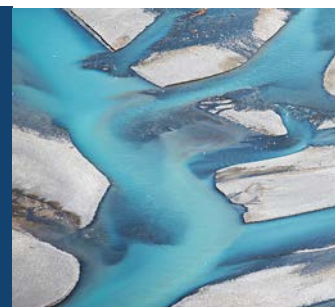


# NIKKO AM CORE EQUITY FUND

## Monthly Fact Sheet

## 30 September 2016



### Investment objective

The objective of the Fund is to construct a portfolio of permitted 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 Credits)

### Fund description

The Fund aims to provide investors with an exposure to New Zealand and Australian equity markets from an actively managed investment portfolio with potential for growth of income and capital.

The Fund gains its investment exposures by investing into the Nikko AM Wholesale Core Equity Fund which is managed by the Nikko AM NZ Equity team.

### Distributions

Semi-annual. Last business days of March and September.

### Currency management

Foreign currency exposures created as a consequence of capital markets investment may be hedged to NZD at the Manager's discretion with an operational range of 0% to 105%. Currency hedging contracts are held in the Nikko AM Wholesale Core Equity Fund.

### Management fees and other charges

A management fee of up to 0.75% per annum calculated as a percentage of the net asset value of the Fund will be deducted from the Fund.

Nikko AM may also recover expenses (including the Trustee fee) from the Fund up to a maximum of 0.25% per annum of the Fund's net asset value. As at the time of publication these expenses are estimated to be 0.175% per annum.

### Buy/sell spread

0.35% / 0.35%

### Strategic asset allocation

Asset class	Range
Australasian equities, cash and cash equivalents and listed property via the Nikko AM Wholesale Core Equity Fund	95% – 100%
Cash on call for investor transactions	0% – 5%

### Restrictions

Nikko AM Wholesale Core Equity Fund:

- Maximum of 20% Australian listed securities that are not listed on the New Zealand Stock Exchange.
- S&P/NZX 50 Index member maximum portfolio weight permissible is index weight plus 6%. No requirement on the Manager to hold any security at a minimum weight.
- Short sales of investments is not permitted

Refer to the SIPO for full details of permitted investments and restrictions.

### Performance

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

1 month	3 months	6 months	1 year
-0.21%	6.63%	9.31%	31.70%
2 years (pa)	3 years (pa)	5 years (pa)	Inception (pa)*
18.84%	16.45%	17.15%	12.89%

\* May 2010

### Attribution to performance – quarter

What helped	What hurt
Summerset Group	OW Japara Healthcare
Chorus Ltd	UW Contact Energy
Metlife Care	OW Fisher & Paykel

OW: overweight; UW: underweight; NP: neutral position; NH: no holding

## Asset allocation (% of fund)

New Zealand equities	89.7%
Australian equities	7.2%
Cash	3.1%

## Sector allocation

	Fund	Index
Healthcare	19.5%	16.9%
Utilities	16.0%	15.8%
Industrials	13.1%	14.6%
Consumer discretionary	12.3%	10.1%
Telecommunications	9.3%	10.1%
Materials	9.1%	9.1%
Consumer staples	6.7%	3.8%
Energy	5.8%	4.4%
Real Estate	3.5%	9.6%
Cash	3.1%	0.0%
Information technology	1.6%	2.5%
Financials	0.0%	3.1%

## Top 10 holdings

Fletcher Building	Infratil Limited
Contact Energy	Sky City Entertainment
Auckland International Airport	Summerset Group Holdings
Spark New Zealand	MetlifeCare
Fisher & Paykel Healthcare	Restaurant Brands
<b>Number of holdings in fund</b>	<b>34</b>

## Largest deviations from Index

Overweight	Underweight
Contact Energy	Ryman Healthcare
Infratil Limited	Mercury NZ Limited
Summerset Group Holdings	Kiwi Property Group

## Commentary

The S&P/NZX 50 Index Gross (with imps) rose 7.26% for the quarter bringing the YTD return to 17.6%. Although the quarterly return is impressive, it hides a fall from lifetime highs and a modest recovery during the month of September. The S&P/ASX200 Accumulation Index, S&P500 and FTSE100 returned +5.1%, +3.3% and +6.1% respectively in local currencies.

The Fund performed in-line with the benchmark during the quarter. The retirement stocks had a strong period with the largest positive contributors to relative return coming from the overweight positions in **Summerset Group** (SUM) and **Metlifecare** (MET). Both companies reported strong operating results with additional support coming from valuation uplifts.

The nil position in Chorus added relative value as the stock fell sharply on concerns for lost copper lines and accelerating fibre uptake which leads to higher capex. This dynamic was the core reason for a nil holding recently.

Kiwi Property Group added relative value (nil holding) as the stock fell while the market considered challenging valuation metrics for the company and an extensive development pipeline.

Performance was hurt by **Japara Healthcare** (JHC) which fell 17.2% after continuing concerns for Government funding, a below expectations outlook in its result and big misses from other sector companies results. We continue to see value in Japara in the medium term.

**Contact Energy** (CEN) had a poor quarter with the stock lower against a positive market notwithstanding compelling valuation support. The result announcement during the quarter was average and outlook comments concerned the market.

**Fisher & Paykel Healthcare** (FPH) pulled back following a very strong, multi-year rally. The stock was hurt by a modestly negative tone to their AGM update and pending legal action between FPH and their Australian competitor, Resmed.

A number of changes were made over the quarter. Companies sold included NEXTDC (NXT) Orion Healthcare (OHE), NZ Oil and Gas (NZO), Xero (XRO) and Westpac Bank (WBC).

Additionally **Fisher and Paykel Healthcare** (FPH) was reduced from a substantial overweight position. New companies introduced over the period included **Aconex** (ACX), **Investore Property** (IPL), **Comvita** (CVT) and **Chorus** (CNU).

(**Bold** denotes stock held in portfolio)

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