

## Nikko AM Wholesale Global Equity Unhedged Fund

### Fund manager

Nikko Asset Management New Zealand Limited (Nikko AM).

Nikko AM is Asia's premier global asset manager. In New Zealand we actively manage NZ\$4 billion of investments for a diverse group of clients. 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

October 2008

### Investment objective

Over a rolling three year period, to target a return which exceeds the benchmark by 3% per annum, before fees.

### Benchmark

MSCI All Countries World Index – NZD unhedged. (Prior to 1 June 2014 the benchmark was the MSCI World Index, with net dividends reinvested – NZD unhedged).

### Distributions

At any date for any period fixed by the Manager

### Hedging policy

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 Investor 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 securities selected by the global managers are directly held by this Fund. This is advantageous to tax-paying unit holders as it enables them to utilise foreign withholding taxes.

### 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.

### Fund structure

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.

The specialist manager line-up and strategic ranges for each are represented in the table overleaf.

### Management fees

Investment management fees will be negotiated separately with each investor and invoiced outside the Fund. All Fund statutory and operating costs will be met directly by the Manager.

### Performance fee

Performance fees will be negotiated separately with each investor and invoiced outside the Fund.

### Buy/sell spread

0.07% / 0.07%

### Trustee

Public Trust

### Custodian

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

#### Selected investors only

Participation in the Fund is limited to persons or entities who are New Zealand resident, and:

(a) whose principal business is the investment of money; or

(b) who, in the ordinary course of and for the purposes of their business, habitually invest money;

and, consequently (or for other reasons) do not constitute "the public" for the purposes of the Securities Act 1978 (**Exempt Person**). Nikko AM will not therefore be required to produce a registered prospectus or an investment statement in relation to the proposed investment (such documents otherwise being required were this offer to be made to persons or entities that are not Exempt Persons), and such documents will not be produced accordingly. Investors in the Fund will be required to acknowledge their status as an Exempt Person as part of their subscription in the Fund. Investors in the Fund will also be required to undertake to Nikko AM that any transfers of interests in the Fund will only be to Exempt Persons.

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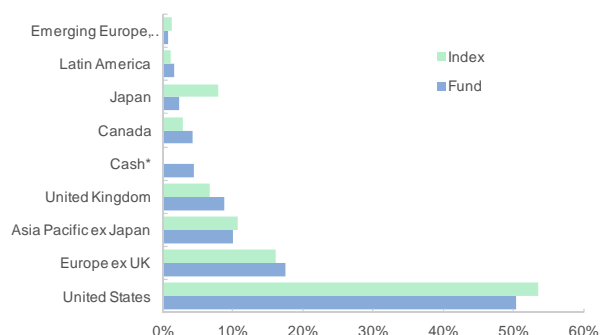
**Nikko AM Wholesale Global Equity Unhedged Fund**

**Performance (NZD gross returns)**

	Fund %	Benchmark %	Excess %
1 month	-0.07	-0.57	0.50
<b>3 months</b>	<b>-3.07</b>	<b>-4.30</b>	<b>1.23</b>
6 months	-6.54	-9.03	2.49
<b>1 year</b>	<b>9.52</b>	<b>4.56</b>	<b>4.97</b>
2 years pa	14.65	11.43	3.22
<b>3 years pa</b>	<b>16.01</b>	<b>14.41</b>	<b>1.60</b>
5 years pa	11.07	9.14	1.93

Fund size NZD497 million

**Geographical allocation**



**Emerging markets (% of fund) 9.23%**

**Manager allocation (%)**

Manager	Range	Actual
WCM Investment Mgmt	10-30	25.2
Principal Global Investors	10-30	26.8
Epoch Investments Partners Inc	10-30	21.5
Davis Selected Advisors LP	10-30	23.5
Nikko AM Limited (Derivatives)	0-10	2.1
Nikko AM Limited (Cash)	0-10	0.9

**Top 10 holdings (%)**

Company	Fund	Index	Country
Amazon	2.4%	0.7%	US
Facebook	1.8%	0.7%	US
Alphabet, Class C	1.6%	0.7%	US
Alphabet, Class A	1.6%	0.7%	US
Taiwan Semiconductor	1.3%	0.0%	Taiwan
Novo Nordisk	1.2%	0.3%	Denmark
Rockwell Automation	1.1%	0.0%	US
Assa Abloy	1.1%	0.1%	Sweden
Diageo	1.1%	0.2%	UK
Apple	1.1%	1.7%	US

**Compliance**

The Fund complied with its investment mandate during the month.

**Sector allocation (%)**

Sector	Fund	MSCI
Consumer Discretionary	15.7	12.9
Consumer Staples	11.8	10.9
Energy	5.5	6.4
Financials	12.2	20.6
Health Care	10.2	12.3
Industrials	12.4	10.3
Information Technology	16.2	14.9
Materials	3.8	4.4
Telecommunication Services	4.0	3.9
Utilities	3.7	3.4
Cash*	4.5	-

\* includes the sum of the underlying managers' cash allocations

**Commentary**

January was a poor month for equity markets with the MSCI ACWI Index falling 0.57% (NZD, unhedged), as macro economic data weakened and earnings expectations deteriorated. The defensive sectors (Utilities, Consumer Staples and Telecoms) outperformed while Healthcare continued to suffer from a loss of appetite for risk and reduced fund flows into the Biotech sector. Another poor performing sector was Financials, as the market interpreted the deflationary impact of a devaluing Yuan into the banking sector's share prices. There were numerous corporate earnings reports for the market to digest. In general, results came in weaker than anticipated, while management commentary painted a picture of slowing global growth. The current downgrade to the earnings ratio for global companies is greater than 2:1. Many central banks continue to fight the deflationary forces unleashed by weak macroeconomic data and a strengthening US dollar. Out of the major indices, the United States outperformed the global benchmark, though the dwindling list of leaders shows a lack of breadth and is a concern.

While most of the underlying managers trailed the benchmark, Epoch's shareholder yield strategy made a significant positive contribution with a return of 3.82% for the month driven largely by its significant overweights to Utilities, Telecoms and Consumer Staples. The best individual performers in those sectors included WEC Energy Group (+14%), Diageo (+3.5%) and Altria Group (+11%). At the aggregate Fund level, the significant underweight to Financials, which performed poorly, added the most value from all the sectors. The major detractor among the Fund's holdings in Financials was an overweight to TD Ameritrade, which fell 16%. Another detractor was the underweight position in Energy, albeit the stock selection more than made up for this shortfall, with Cabot Oil & Gas gaining 24%. The Fund's top holding, Amazon.com, is currently experiencing a sharp correction, falling 8% in January, although this came after a gain of more than 100% in 2015. Stock selection in Information Technology was very strong with the holding in Facebook (+13%) performing well. At the country allocation level, one of the largest detractors was the exposure to China, which experienced a major correction in the Hang Seng Index on fears of slowing Chinese growth. Among the biggest casualties were consumer-oriented businesses like SouFun Holdings (-15%), CAR Inc (-20%) and JD.com (-15%). While disappointing over the short term, we believe the long-term fundamentals of these companies are positive.