

Nikko AM NZ Wholesale SRI Equity 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, 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).

Fund launch

January 2008 – a similar portfolio has been operated by Nikko AM since August 2001.

Investment objective

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

Benchmark

S&P/NZX 50 Index Gross

Investment process

Nikko AM is an active style neutral manager with a lower risk approach to investment. Our domestic equity portfolio is constructed and managed with a blend of value and growth companies, with a modest Australian exposure (maximum 20% permitted).

In addition, the Fund has a negative screen to exclude liquor, tobacco, armaments and gambling equities.

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. The Fund invests directly into tradeable capital market securities. Whilst the majority of the return is "excluded income" there will be a portion of interest income, dividends not fully imputed, and certain ASX listed shares will not fit the criteria for trading gains/losses to be excluded. Information is provided to the IRD and unit holders on an annual basis.

Distributions

At any date for any period fixed by the Manager

Hedging policy

AUD exposures are hedged to the NZD at the discretion of the Manager.

Management fees and other charges

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

Negotiated separately with each investor and invoiced outside 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.

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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General Enquiries: NZenquiries@nikkoam.com | +64 9 307 6363

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Performance (NZD gross returns)

	Fund %	Benchmark %	Excess %
1 month	-3.18	-2.44	-0.74
3 months	2.84	3.07	-0.23
6 months	3.15	4.21	-1.06
1 year	7.76	7.42	0.34
2 years (pa)	13.85	12.51	1.35
3 years (pa)	14.52	13.21	1.31
5 years (pa)	13.61	13.07	0.54

Fund size: \$14.5 million

Attribution

What helped		What hurt	
Xero Limited	UW	Infratil Limited	OW
Nuplex Industries Limited	UW	ANZ Banking Grp	OW
Airwork Holdings Limited	OW	Kiwi Property Grp	UW

OW=overweight, UW=underweight, N=neutral position

Top 10 holdings

Fisher & Paykel Healthcare	Infratil Limited
Contact Energy Limited	Summerset Group Holdings
Fletcher Building Limited	NZ Refining Company
Meridian Energy Ltd	Ryman Healthcare
Spark New Zealand Limited	Auckland International Airport

Number of holdings in portfolio **32**

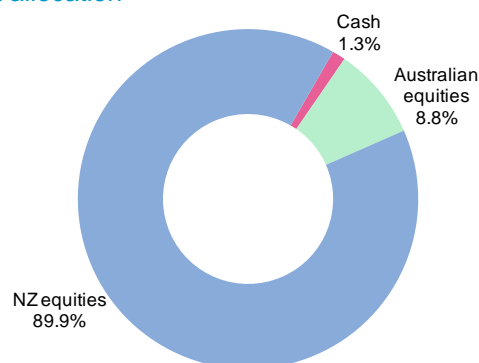
Sector allocation

	Fund %	Index %
Consumer discretionary	5.2	10.4
Consumer staples	3.0	3.1
Energy	7.4	4.5
Financials	6.1	13.7
Healthcare	24.7	15.4
Industrials	10.4	14.7
Information technology	2.5	2.5
Materials	8.8	8.2
Telecommunications	8.1	10.7
Utilities	22.5	16.8
Cash	1.3	-

Hedging

Australian listed stocks are unhedged

Asset allocation



Commentary

Markets had a very volatile start to 2016 as they were impacted by the likes of oil and resource prices continuing to tumble, Japan moving to negative rates and continuing concerns around the Chinese economy. While the MSCI World index fell 6%, the New Zealand market was one of the better performers globally, down only 2.4% (S&P/NZX 50 Index) while the Australian market (S&P/ASX 200 Index) declined 5.5%.

The Fund modestly underperformed the index in January. The Fund's nil holding in Xero (XRO) reversed the value detracted from the Fund recently as the stock fell by around \$2.00 from \$19.80. Nuplex Industries also added to relative performance with the stock falling around 12% as investors worried about the generally deteriorating outlook for growth.

Auckland Airport (AIA) added modest value to the Fund as it halted from its recent strong price run up. Notwithstanding the every improving migration statistics, the current valuation looks stretched given the regulatory landscape.

Mighty River Power, which was sold from the Fund in December, fell in January adding relative performance. The fall was driven by poor operational statistics released to the market. TradeMe fell over the month as investors questioned the underlying earnings support, which we consider quite anaemic, given the recent strong price movement.

Infratil (IFT) sold off and detracted from performance. There were no material news releases but the volatile nature of markets undoubtedly impacted the price support for the company.

Summerset Holdings (SUM) and **Metlifecare (MET)** both sold off and detracted performance following a round of sharebroker notes focused on the risks in the New Zealand property market.

Rio Tinto (RIO) sold off over the month, continuing the theme from the end of CY15. The worries of slowing global growth and falling iron ore prices out-weighted the strong capital position, best in class cost performance and emerging dividend support, to fall over the month.

(Bold denotes stock held in portfolio)

Compliance

The Fund complied with its investment mandate during the month.