

Nikko AM Wholesale Core 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

October 2007 – a similar portfolio has been operated by Nikko AM since March 1992.

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 with Imputation

Investment process

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).

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. Hedging is based on the gross asset value of the Fund.

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.

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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Nikko AM Wholesale Core Equity Fund

Performance (NZD gross returns)

	Fund %	Benchmark %	Excess %
1 month	1.11	1.01	0.10
3 months	2.35	2.23	0.12
6 months	9.47	10.88	-1.41
1 year	8.49	7.41	1.08
2 years (pa)	15.16	13.25	1.91
3 years (pa)	15.72	14.44	1.28
5 years (pa)	15.04	14.59	0.45
10 years (pa)	8.68	7.78	0.90

Fund size: \$251 million

Attribution

What helped		What hurt	
Xero Limited	UW	Auckland Intl. Airport	UW
Air New Zealand	UW	Ebos Group Limited	NH
Diligent Corporation	OW	Nuplex Industries	UW

OW=overweight, UW=underweight, NP=neutral position, NH = no holding

Largest deviations from index

Overweight	Underweight
Summerset Group Holdings	Auckland International Airport
NZ Refining Company	Trade Me Group
Infratil Limited	Kiwi Property Group

Top 10 holdings

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

Number of holdings in portfolio **34**

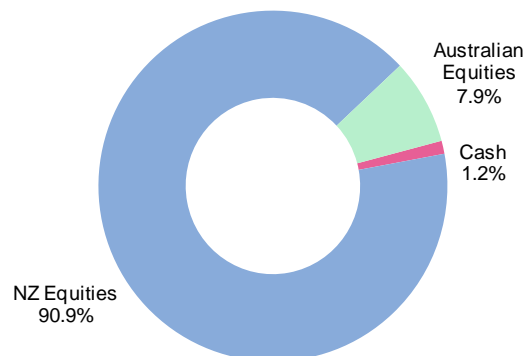
Sector allocation

	Fund %	Index %
Consumer discretionary	10.0	10.3
Consumer staples	2.9	2.9
Energy	7.1	4.2
Financials	5.4	13.2
Healthcare	23.5	15.7
Industrials	9.4	15.0
Information technology	2.9	2.4
Materials	8.8	8.4
Telecommunications	7.7	11.1
Utilities	21.1	16.8
Cash	1.2	-

Hedging

Australian listed stocks are unhedged

Asset allocation



Commentary

Global equity markets over the month of February generally struggled falling in the first half of the month on rising risk aversion before recovering somewhat although finishing the month generally lower. Markets were weighed down by a global sell-off in bank stocks, a weakening economic backdrop particularly from China, deflation fears particularly from Europe, and worries over Brexit' fears over the upcoming British referendum on E.U. membership. The NZX50 Index outperformed global markets, rising +1.01% and the S&P / ASX 200 Index which fell 1.76%. The Fund performed in line with the market over month.

Xero (XRO) which is now a modest holding, continued to fall over the month in line comparative companies globally. The fall in the stock price brings **Xero** towards more reasonable valuation levels and hence we re-introduced a small position.

Air New Zealand (AIR) nil holding, fell back over the month despite delivering another very strong earnings and operational report. The price is down on the news of an increasing number of competitors adding capacity into New Zealand.

Diligent (DIL) performed very strongly over the month following the announcement of a takeover bid for Diligent which the directors and major shareholders support. The Fund benefitted from the near 20% price increase.

Metlifecare (MET) performed very well over the month having released their half year earnings numbers. In particular the marked increase in the asset backing surprised the market positively.

Auckland Airport (AIA) detracted value as the stock rallied strongly, circa 10% over the month. All aspects of AIA's performance were strong according to their earnings numbers that were released during February.

EBOS (EBO) positively surprised the market and the stock rallied 16% which detracted from performance given the Fund's nil holding. Questions remain over the sustainability of the growth in the core business notwithstanding the recent track record of acquisition driven growth. **Nuplex** (NPX), nil holding, rallied strongly on the back of a conditional take-over bid. The stock was up 21% over the month but the offer remains both conditional and non-binding, however the NPX board assess the offer as "attractive".

During the month we exited the final holding of **Chorus** following a strong period of performance. **Xero** was introduced during the month with the weak price providing a reasonable opportunity to re-enter the stock. **Orion Healthcare** was added to the portfolio following a positive announcement for their US operations.

(Bold denotes stock held in portfolio)

Compliance

The Fund complied with its investment mandate during the month.