

## 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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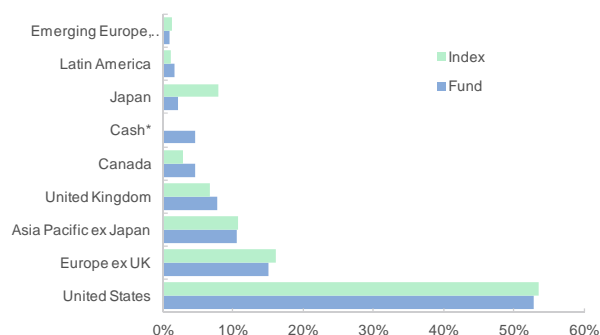
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Performance (NZD gross returns)

	Fund %	Benchmark %	Excess %
1 month	-2.39	-2.55	0.16
<b>3 months</b>	<b>-8.06</b>	<b>-8.42</b>	<b>0.36</b>
6 months	-7.28	-9.27	1.99
<b>1 year</b>	<b>5.87</b>	<b>0.63</b>	<b>5.23</b>
2 years pa	12.63	9.42	3.21
<b>3 years pa</b>	<b>14.45</b>	<b>12.86</b>	<b>1.60</b>
5 years pa	9.41	7.23	2.18

Fund size NZD489 million

Geographical allocation



Emerging markets (% of fund) **10%**

Sector allocation (%)

Sector	Fund	MSCI
Consumer Discretionary	15.84	12.96
Consumer Staples	11.24	10.86
Energy	5.61	6.38
Financials	12.88	20.18
Health Care	9.80	12.23
Industrials	10.70	10.47
Information Technology	17.58	14.81
Materials	4.03	4.68
Telecommunication Services	4.19	4.02
Utilities	3.58	3.41
Cash*	4.54	0.00

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

Manager allocation (%)

Manager	Range	Actual
WCM Investment Mgmt	10-30	25.53
Principal Global Investors	10-30	26.80
Epoch Investments Partners Inc	10-30	21.98
Davis Selected Advisors LP	10-30	23.36
Nikko AM Limited (Derivatives)	0-10	2.09
Nikko AM Limited (Cash)	0-10	0.24

Top 10 holdings (%)

Company	Fund	Index	Country
Amazon	2.91	0.66	US
Facebook	1.75	0.69	US
Alphabet, Class C	1.53	0.65	US
Alphabet, Class A	1.50	0.63	US
Taiwan Semiconductor	1.35	0.33	Taiwan
Novo Nordisk	1.09	0.31	Denmark
Apple	1.06	1.66	US
Cooper Companies	1.02	0.02	US
Encana	0.99	0.01	Canada
JP Morgan Chase	0.96	0.63	US

Commentary

February was another weak month for equity markets, continuing the pullback in global markets that started in mid 2015 – the MSCI All Countries World Index (NZD; unhedged) returned -2.55% for the month. All but two sectors (Materials and Industrials) finished the month in negative territory. The biggest drag on the market was the Financials sector (down >4%), and bank stocks in particular. This was driven by the weakening economic backdrop, particularly in China, after a raft of negative macroeconomic reports. Deflation fears – primarily in Europe – also weighed on sentiment, and additionally, there were concerns over the potential British withdrawal from the European Union (Brexit). Growth fears in China, and weak macroeconomic data were key reasons for the poor performance in Japan. Japanese GDP fell 1.4% quarter-on-quarter. Similarly Eurozone PMI fell, and new orders in particular were very weak. On the other hand, the Materials sector was strong (after having been a consistent underperformer of late), driven by rising metal prices, and iron ore in particular. Oil markets were mixed despite news that Russia, Saudi Arabia, Venezuela and Qatar have decided to freeze oil production at January 2016 levels. Leading the market lower with Financials, were Health Care (-3.2%) and Information Technology (-3.1%). At the regional level, the best markets were Canada (+1.7%) and Latin America (+1.8%) while laggard regions were Japan (-4.7%), Europe ex UK (-4.1%) and Emerging Asia (-3.2%).

The Fund outperformed its benchmark in February with most of the outperformance from stock selection, with some detraction from regional and sector allocation. The large underweight to Financials was the largest contributor to the outperformance. Overweights in TD Ameritrade (+2.3%) and BM&F Bovespa (+12%) added the most value, as well as not holding Bank of America (-13%). In the Telecommunications sector, positions in BCE (+5.4%) and Centurylink (+18%) added, while Tyson Foods (+19%) was the standout among Consumer Staples. Sectors that detracted from performance were Consumer Discretionary (largely Amazon.com) and Materials. Amazon is the Fund's largest holding and its decline of 7.6% was a drag on performance. The performance of stocks within the Materials sector was mixed, with Mining stocks generally outperforming non-Mining stocks. Although the Fund's overweight positions in Novozymes (+2.8%) and CSR (+15%) added value, more value was detracted from not holding Mining names like Glencore (+43%) and Barrick Gold (+37%) which surged on the back of a bounce in metal prices.

Compliance

The Fund complied with its investment mandate during the month.