

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\$4.8 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	9.19	8.78	0.41
3 months	7.37	7.21	0.16
6 months	21.58	21.35	0.23
1 year	20.09	17.26	2.83
2 years (pa)	18.56	16.21	2.35
3 years (pa)	18.21	16.63	1.58
5 years (pa)	16.62	15.99	0.63
10 years (pa)	8.67	7.74	0.92

Fund size: \$267 million

Attribution

What helped	What hurt
Xero Limited	UW NZ Refining OW
MetlifeCare Ltd	OW EBOS Group UW
Z Energy Ltd	UW Infratil OW

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

Largest deviations from index

Overweight	Underweight
Contact Energy	Auckland International Airport
Summerset Group Holdings	Mighty River Power
Infratil Limited	Kiwi Property Group

Top 10 holdings

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

Number of holdings in portfolio **36**

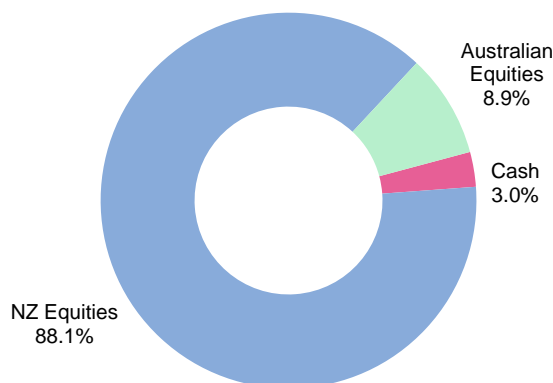
Sector allocation

	Fund %	Index %
Consumer discretionary	9.7	10.4
Consumer staples	3.6	2.9
Energy	7.2	4.1
Financials	6.1	13.1
Healthcare	23.9	16.6
Industrials	10.0	14.6
Information technology	3.1	2.3
Materials	9.2	8.6
Telecommunications	7.2	10.7
Utilities	17.0	16.7
Cash	3.0	-

Hedging

Australian listed stocks are unhedged

Asset allocation



Commentary

Equities went through a roller coaster ride over the first quarter of 2016. The S&P/NZX50 index rallied 8.78% in March bringing the quarterly return to 7.21% while the S&P/ASX 200 Index rose 4.73% over the month but remained down for the year to date at -2.75%. Locally, the Reserve Bank of New Zealand cut the Official Cash Rate (OCR) twice including a surprise cut in early March.

Xero which is a substantial underweight in the portfolio fell 22% over the quarter as global market participants looked to reduce risk. In particular the global tech/software sector was down sharply which benefitted our relative performance versus the index. **Metlifecare** performed strongly over the quarter on the back of the release of their first half profit for 2016. The operating metrics were generally very strong with the NTA improving 13% over the period.

Diligent received a takeover bid during the quarter which valued the company at \$7.39 versus circa \$5.64 at the time, a 31% premium which benefited the Fund. The directors were in favour of deal to sell to Insight Venture Partners. **NZ Refining** (NZR), despite reporting a strong profit for year and declaring a final dividend of 20cps, fell sharply (17%) over the quarter. The fall in price, which detracted from performance, was based on the company's guidance for increasing operating costs and increased capital expenditure.

Not holding **EBOS Group** detracted from performance as the company reported a strong first half profit result across all the key metrics. **EBOS** rallied 24% over the quarter and continuing what has been a very impressive run for the company. **Infratil** was volatile over quarter but ended flat versus a strong New Zealand market and hence detracted from performance.

During the quarter the Manager exited the final holding of **Chorus** following a strong period of performance and a small residual holding in **APN Media**. We re-introduced **Xero** and **Orion Healthcare** following periods of considerable price weakness despite both companies giving generally positive updates. We introduced **Vista Group** taking advantage of a sell down of stock by the company's founders at a modest discount. Additionally we commenced a small position **360 Capital Industrial Fund** to gain exposure to their property management and funds management expertise.

(Bold denotes stock held in portfolio)

Compliance

The Fund complied with its investment mandate during the month.