

## 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\$4.8 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.

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#### 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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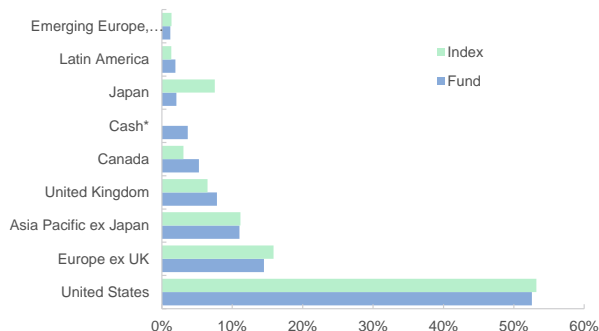
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Performance (NZD gross returns)

	Fund %	Benchmark %	Excess %
1 month	1.57	2.00	-0.43
<b>3 months</b>	<b>-0.93</b>	<b>-1.16</b>	<b>0.24</b>
6 months	-2.57	-3.00	0.43
<b>1 year</b>	<b>7.90</b>	<b>3.32</b>	<b>4.58</b>
2 years pa	15.13	12.22	2.91
<b>3 years pa</b>	<b>14.69</b>	<b>13.13</b>	<b>1.55</b>
5 years pa	9.86	8.19	1.66

Fund size NZD497.5 million

Geographical allocation



Emerging markets (% of fund) **10.9%**

Sector allocation (%)

Sector	Fund	MSCI
Consumer Discretionary	15.91	12.91
Consumer Staples	11.38	10.66
Energy	6.05	6.50
Financials	13.79	20.35
Health Care	8.60	11.71
Industrials	10.80	10.55
Information Technology	18.19	15.06
Materials	4.12	4.81
Telecommunication Services	3.84	3.98
Utilities	3.64	3.47
Cash*	3.67	0.00

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

Manager allocation (%)

Manager	Range	Actual
WCM Investment Mgmt	10-30	25.82
Principal Global Investors	10-30	26.92
Epoch Investments Partners Inc	10-30	22.18
Davis Selected Advisors LP	10-30	23.62
Nikko AM Limited (Derivatives)	0-10	2.07
Nikko AM Limited (Cash)	0-10	-0.60

Top 10 holdings (%)

Company	Fund	Index	Country
Amazon	3.08	0.67	US
Facebook	1.74	0.73	US
Alphabet, Class C	1.54	0.65	US
Alphabet, Class A	1.51	0.63	US
Taiwan Semiconductor	1.42	0.35	Taiwan
Berkshire Hathaway	1.36	0.47	US
Encana	1.33	0.01	Canada
JP Morgan Chase	1.13	0.61	US
Apple	1.12	1.71	US
Novo Nordisk	1.08	0.30	Denmark

Commentary

The first quarter of 2016 proved to be a difficult start for global equities, as markets fell about 10% during the first half of the quarter, only to reverse course and make up most of the losses during the second half. The benchmark MSCI All Countries World Index (NZD, unhedged) returned -1.16% over the quarter. It was a stock picker's market, as correlated moves among equities unwound to the lowest levels since 2012. Utilities and Consumer Staples were among the best performing sectors, while Healthcare and Financials among the worst. Energy and Materials bounced back strongly during the second half of the quarter as oil and metals prices rallied. Investors also displayed risk-on behaviour post the US Federal Reserve Open Market Committee's (FOMC) meeting in mid-March during which they left rates on hold. The terrorist attack in Brussels weighed on European equities towards the end of the quarter; however markets quickly reversed losses on the back of the US Fed's dovish statements. In Asia, Chinese equities were quite volatile but maintained an upward trajectory, despite some negative sentiment as the Chinese government downgraded its economic growth target to 6.5%-7%. Japanese markets were also a little unstable after the Bank of Japan refrained from providing further monetary stimulus and moving rates into further negative territory.

The underweight exposures to Financials and Healthcare – the two worst performing sectors during the quarter – were to the Fund's advantage. A weaker US dollar boosted the prices of oil and metals prices, and this removed some of the pressure that mining and oil stocks felt over the last 12 months. While the Fund was underweight Energy, it benefitted from overweights to oil stocks Encana and Cabot Oil & Gas, which surged 19% and 27% respectively during the quarter. The Fund's underweight exposure to Healthcare added value; however, a large drop of 74% in Valeant Pharmaceuticals hurt performance by a significant degree. The stock plunged due to a combination of lower-than-expected earnings guidance and worries about possible credit default. The other main detractor from performance was the Fund's top holding, Amazon.com, which declined 13% over the quarter, but this came after the stock gained more than 100% in 2015. On the positive side, the Brazilian stock, futures and commodities exchange, BM&F Bovespa, surged more than 50% as investors became more optimistic that President Dilan Rousseff could be impeached.

Compliance

The Fund complied with its investment mandate during the month.