

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	0.81	1.01	-0.20
3 months	11.30	11.00	0.30
6 months	15.13	14.54	0.59
1 year	20.66	19.32	1.34
2 years (pa)	17.70	15.68	2.02
3 years (pa)	17.42	15.38	2.05
5 years (pa)	16.28	15.69	0.59
10 years (pa)	8.48	7.58	0.90

Fund size: \$267 million

Attribution

What helped	What hurt
Air New Zealand	NH Z Energy UW
Auckland Intl Airport	UW NZ Refining OW
Rio Tinto Limited	OW Sky Network TV UW

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

Largest deviations from index

Overweight	Underweight
Summerset Group Holdings	Auckland International Airport
Contact Energy	Sky Network Television
Infratil Limited	Mighty River Power

Top 10 holdings

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

Number of holdings in portfolio **38**

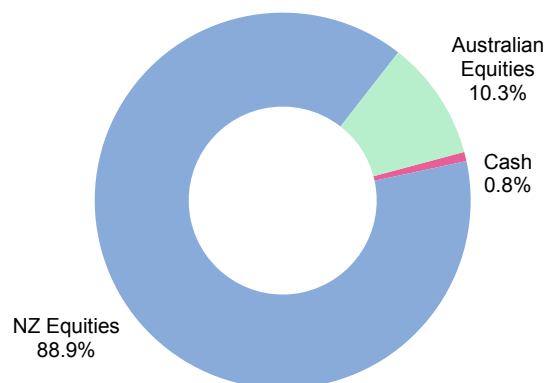
Sector allocation

	Fund %	Index %
Consumer discretionary	10.4	10.5
Consumer staples	4.0	3.3
Energy	7.2	4.3
Financials	6.4	13.2
Healthcare	25.4	16.4
Industrials	9.4	14.2
Information technology	2.7	1.6
Materials	9.4	9.0
Telecommunications	7.3	10.7
Utilities	17.0	16.8
Cash	0.8	-

Hedging

Australian listed stocks are unhedged

Asset allocation



Commentary

Global equity markets posted generally positive returns in April with materials and energy performing particularly well on the back of a jump in commodity prices. The Australian market was strong with the S&P/ASX 200 up 3.4%, driven by a 15.4% jump in the S&P/ASX 200 Resource Index. The New Zealand market (S&P/NZX 50 Index) was up 1.0%.

Not holding Air New Zealand (AIR) benefited the Fund as the stock fell 14% in April as a result of their previously announced loan to Virgin Australia and subsequent intention to sell their stake in Virgin, along with news from other airlines about further competition on AIR routes.

The overweight position in **Rio Tinto** (RIO) benefited the Fund. RIO rallied strongly over the month (up approximately 19%) supported by a generally improving global outlook, which in turn pushed the spot iron price substantially higher.

Our underweight position in **Auckland International Airport** (AIA) added value as the company fell without any specific information releases. The elevated valuations and strong period of performance is likely to have been based on offshore flows.

Z Energy (underweight) performed strongly (up ~16%) over the month detracting from performance. The price strength proved to be an accurate indication that the company would ultimately succeed in achieving regulatory approval for their bid to access Caltex NZ.

Sky Network Television detracted as the stock continued to rally, following our sale of the Fund's holding. The company continues to face numerous competitive headwinds, but the prospect of capital initiatives is appealing to investors.

NZ Refining fell further in April, given a mild deterioration in expected refining margins and hence profits, together with a planned shutdown of the hydrocracker.

Ryman Healthcare (underweight) rallied over the month. There was no news from the company ahead of their full year result however the market is expecting a positive update from the company in May.

During the month we exited Western Areas and Sky Network TV given limited valuation support primarily. We introduced **Aristocrat Leisure**, a gaming machine manufacturer and systems developer based in Australia, supported by a reasonable valuation and strong global business momentum.

(Bold denotes stock held in portfolio)

Compliance

The Fund complied with its investment mandate during the month.