

Nikko AM Wholesale Global Equity Hedged 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 hedged to NZD. (Prior to 1 June 2014 the benchmark was the MSCI World Index, with net dividends reinvested – NZD hedged).

Distributions

At any date for any period fixed by the Manager

Hedging policy

Generally 100% hedged to NZD based on the gross asset value of the Fund. The USD, EUR, GBP and JPY exposures will be passively hedged in weights as determined by Nikko AM from time to time.

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.

This Fund gains its exposure by investing in the Nikko AM Wholesale Global Equity Unhedged Fund. The securities selected by the global managers are directly held by the Nikko AM Wholesale Global Equity Unhedged Fund. This structure 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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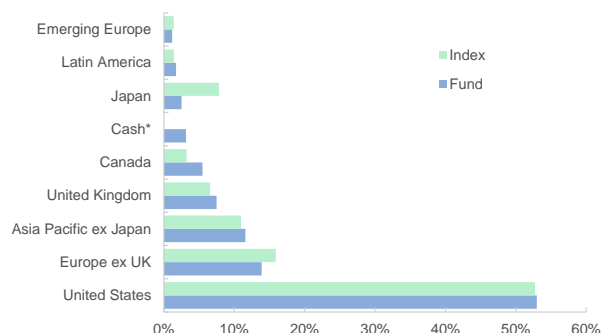
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Performance (NZD gross returns)

	Fund %	Benchmark %	Excess %
1 month	0.64	0.91	-0.27
3 months	4.71	5.27	-0.56
6 months	-1.00	-1.73	0.73
1 year	-0.77	-4.46	3.69
2 years pa	9.29	6.09	3.20
3 years pa	11.64	10.13	1.51
5 years pa	11.50	10.00	1.50

Fund size NZ\$331 million

Geographical allocation



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

Manager allocation (%)

Manager	Range	Actual
WCM Investment Mgmt	10-30	25.58
Principal Global Investors	10-30	26.54
Epoch Investments Partners Inc	10-30	21.95
Davis Selected Advisors LP	10-30	24.44
Nikko AM Limited (Derivatives)	0-10	2.07
Nikko AM Limited (Cash)	0-10	-0.59

Top 10 holdings (%)

Company	Fund	Index	Country
Amazon.com	3.38	0.73	US
Encana	1.65	0.02	Canada
Berkshire Hathaway	1.64	0.48	US
Facebook	1.50	0.74	US
Alphabet, Class C	1.42	0.60	US
Alphabet, Class A	1.38	0.57	US
Taiwan Semiconductor	1.26	0.32	Taiwan
JP Morgan Chase	1.19	0.65	US
Novo Nordisk	1.10	0.30	Denmark
Reckitt Benckiser Group	1.05	0.17	UK

Sector allocation (%)

Sector	Fund	MSCI
Consumer Discretionary	16.3	12.7
Consumer Staples	11.2	10.5
Energy	7.0	6.9
Financials	13.9	20.7
Health Care	9.2	11.9
Industrials	10.2	10.6
Information Technology	17.5	14.3
Materials	4.4	5.1
Telecommunication Services	3.6	3.9
Utilities	3.5	3.4
Cash*	3.2	-

* includes the sum of the underlying managers' cash allocations. Sector allocation above is for the Nikko AM Wholesale Global Equity Unhedged Fund

Commentary

The market's positive momentum from March continued into April, with the benchmark MSCI All Countries World Index gaining 0.91% (NZD, hedged). Returns in high yielding sectors remained positive led by the commodity-sensitive Energy and Materials sectors which posted materially robust returns for the second consecutive month as their rebound continues. The yield in those two sectors fell about 250 basis points (bps) during the month on the heels of crude oil surging 16% to USD 46 per barrel while iron ore climbed to its highest level since January 2015. Financials and Healthcare were the next best performing sectors. Financials were supported by large gains in JP Morgan Chase, Citigroup and Bank of America, while the Healthcare sector was dominated by Valeant Pharmaceuticals after its internal review discovered no additional accounting issues that would require restatements while also receiving lender consent for a credit line amendment. Information Technology was the biggest drag on performance with significant falls in heavyweights Apple and Microsoft. There was also a wide dispersion among returns from the world's major regions – emerging Asia and the US underperformed, while Brazil, Japan and the UK all delivered solid positive returns.

The Fund performed in line with its benchmark in April, however, three of the four managers underperformed with Davis the only manager to outperform. The Fund's largest negatives came from the Information Technology sector, and specifically the overweights to Alphabet, Taiwan Semiconductor and SouFun Holdings. In contrast, underweights to the large index stocks Microsoft and Apple, which both fell sharply, added value. Although Financials was one of the best performing sectors, the Fund had zero exposure to the large US banks (which all outperformed) and significantly overweight TD Ameritrade which fell 5.7%. Regarding the strong performance of the Davis portfolio mentioned earlier, this was mostly driven by very strong performance of two of its larger holdings, Amazon.com and Encana Corp. Amazon.com jumped after it reported its biggest quarterly profit in its 21-year history, while Encana has been rallying on the back of a rising oil price. The Canadian oil explorer is making operational improvements at its high-margin, core assets that it hopes will deliver approximately 30% returns at oil prices ranging from \$30 to \$50 per barrel of oil. Finally Davis' holding in embattled drug developer, Valeant Pharmaceuticals, also made a significant contribution to the outperformance when it jumped 26%, although the stock is still down 67% year-to-date.

Compliance

The Fund complied with its investment mandate during the month.