

**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**

0.35% / 0.35%

**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	4.76	3.28	1.48
<b>3 months</b>	<b>15.31</b>	<b>13.48</b>	<b>1.83</b>
6 months	18.03	16.01	2.01
<b>1 year</b>	<b>24.64</b>	<b>22.04</b>	<b>2.59</b>
2 years (pa)	20.82	18.13	2.68
<b>3 years (pa)</b>	<b>20.13</b>	<b>17.48</b>	<b>2.65</b>
5 years (pa)	17.16	16.23	0.93
<b>10 years (pa)</b>	<b>9.52</b>	<b>8.44</b>	<b>1.08</b>

Fund size: \$267 million

#### Attribution

What helped	What hurt
Sky Network TV	UW NZ Refining OW
Metlife Care	OW Japara Healthcare OW
Fisher & Paykel	OW Ingenia Communities OW

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

#### Largest deviations from index

Overweight	Underweight
Summerset Group Holdings	Ryman Healthcare
Contact Energy	Mighty River Power
Infratil Limited	Kiwi Property Group

#### Top 10 holdings

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

Number of holdings in portfolio **32**

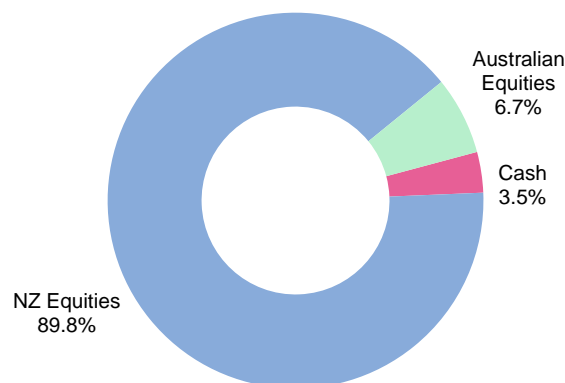
#### Sector allocation

	Fund %	Index %
Consumer discretionary	12.4	10.3
Consumer staples	3.9	2.7
Energy	7.5	4.6
Financials	2.8	12.9
Healthcare	26.2	17.4
Industrials	9.9	14.0
Information technology	1.6	1.7
Materials	8.5	9.2
Telecommunications	7.0	10.5
Utilities	16.7	16.7
Cash	3.5	-

#### Hedging

Australian listed stocks are unhedged

#### Asset allocation



#### Commentary

Global equity markets generally posted solid returns in May with the UK FTSE being one of the few exceptions as concerns for Brexit hurt its performance. After recent US Federal Reserve statements many global economists have brought forward their expectations for the next US rate hike from late 2016 to either June or July. This did not unsettle financial markets as it did the first time a rate increase was close.

The New Zealand market (S&P/NZX 50 index) was up 3.3% and the Australian market (SUP/ASX 200) was similarly strong up 3.1% for the month.

The Fund outperformed the NZX50 Index over the month providing a return of 4.63% for the month.

Four positions were sold from the Fund over the month – Metro Performance Glass, Western Areas, Rio Tinto and Vista Group. On the other side **Sky Network Television** was reintroduced into the portfolio after the stock fell more than 25% intra month. By month end the stock had recovered 12.5% and significantly aided Fund absolute and relative performance. Other strong performers included retirement operator **Metlifecare** (up 14.7%) and **Fisher & Paykel Healthcare** (+14.2%). Recent Fund entrant **Aristocrat Leisure** (+26.2%) also contributed to performance following a strong result driven by solid market share gains in both the US and Australia. The company's innovation and strong R&D pipeline has driven these share gains. The Fund's largest electricity position, **Contact Energy**, rose a solid 6% over the month and was the best performing generator retailer over the period.

On the economic front, the release of the New Zealand Budget provided surprisingly robust news on the state of the local economy and this may temper the chances of the RBNZ lowering the OCR at their next meeting. The New Zealand dollar rose 1.86% against the Australian dollar on top of the +1.75% rise from April. This detracted from performance due to Australian dollar investments currently being unhedged. Against the US dollar, the New Zealand dollar fell 3.1% as Fed Chair Yellen signalled a return to rises in interest rates over the month.

*(Bold denotes stock held in portfolio)*

#### Compliance

The Fund complied with its investment mandate during the month.