

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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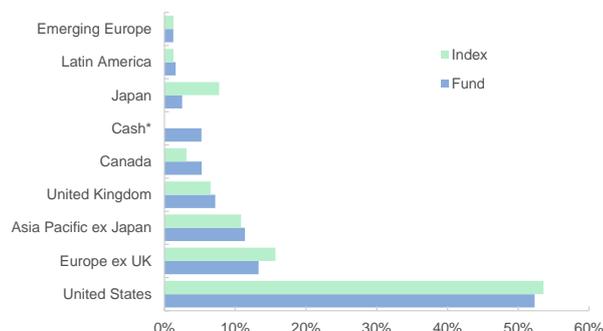
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Performance (NZD gross returns)

	Fund %	Benchmark %	Excess %
1 month	2.52	1.68	0.84
3 months	8.53	8.39	0.14
6 months	-0.09	-0.61	0.52
1 year	0.46	-3.89	4.35
2 years pa	8.90	5.65	3.25
3 years pa	12.35	10.15	2.20
5 years pa	12.13	10.62	1.51

Fund size NZ\$331 million

Geographical allocation



Emerging markets (% of fund) **11%**

Manager allocation (%)

Manager	Range	Actual
WCM Investment Mgmt	10-30	25.63
Principal Global Investors	10-30	26.43
Epoch Investments Partners Inc	10-30	21.61
Davis Selected Advisors LP	10-30	23.88
Nikko AM Limited (Derivatives)	0-10	1.89
Nikko AM Limited (Cash)	0-10	0.55

Top 10 holdings (%)

Company	Fund	Index	Country
Amazon.com	3.32%	0.80%	US
Encana	1.68%	0.02%	Canada
Berkshire Hathaway	1.55%	0.46%	US
Facebook	1.48%	0.75%	US
Alphabet, Class C	1.47%	0.64%	US
Alphabet, Class A	1.43%	0.61%	US
Wells Fargo & Co	1.33%	0.69%	US
Taiwan Semiconductor	1.29%	0.33%	Taiwan
Reckitt Benckiser Group	1.23%	0.18%	UK
JP Morgan Chase	1.20%	0.67%	US

Compliance

The Fund complied with its investment mandate during the month.

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Sector allocation (%)

Sector	Fund	MSCI
Consumer Discretionary	16.1	12.6
Consumer Staples	10.1	10.5
Energy	7.1	6.7
Financials	14.9	20.6
Health Care	8.5	12.1
Industrials	9.5	10.5
Information Technology	17.4	14.9
Materials	4.1	4.8
Telecommunication Services	3.6	3.9
Utilities	3.5	3.4
Cash*	5.2	-

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

Commentary

Most global equity markets were positive during the month, their aggregate performance, as measured by the benchmark MSCI All Countries World Index was up 0.26% in US Dollars (USD) in May. For New Zealand investors the benchmark returned 3.49% (NZD, unhedged) due to foreign currency gains against the NZ dollar and 1.68% on a hedged basis.

From a regional perspective, the USA, Taiwan, India, Belgium and Denmark outperformed, while Japan, the UK and most of Europe struggled.

Information Technology sector, led by Apple and Microsoft, was the stand-out, outperforming the benchmark by about 400 basis points (bps), while Health Care, led by biotechnology, beat the benchmark by more than 100 bps. On the flipside, a more hawkish US Federal Reserve commentary drove a rally in the USD, which impacted negatively on commodity sectors. Last month's winners, Energy and Materials sectors, both surrendered some of their gains and trailed the benchmark by 300 bps and 500 bps respectively. Among the Materials, mining stocks were the biggest losers, while many non-mining companies outperformed. This included Monsanto, which jumped more than 20% after the German pharmaceutical and chemicals giant Bayer AG made an all-cash offer to acquire the company for USD 62 billion. Monsanto rejected the bid stating that the offer undervalued the company. If the deal is successful, it would create the world's largest agrochemicals company, with a share of about 30% of the world's agricultural seed market and a 24% share in the global chemicals market.

The biggest contributors to the Fund's outperformance in May were due to positive stock selection in Consumer Discretionary (Amazon.com) and Financials (TD Ameritrade), as well as, avoiding the majority of underperforming stocks in the Energy and Materials sectors. There were a few exceptions though, with the Fund's holdings in energy companies, Encana Corp and Apache Corp both gaining more than 7%. The overweight position in the US-based agrochemicals company, Monsanto also contributed positively after surging more than 20%, benefitting from Bayer AG's takeover bid.

While stock selection in Health Care and Information Technology underperformed the benchmark in aggregate, value was added by Cooper Companies (10%), Mercadolibre (13%), Tencent Holdings (13%) and Alphabet (9%). The main detractors were underweight exposure to Apple and Microsoft, both gaining more than 10%.

On a country level, stock selection in the USA (Amazon.com), the United Kingdom (3i Group) and South Africa (Naspers) added the most value, while the Fund's Chinese holdings generally performed the worst. YY Inc, VIPshop and China Auto Rental were the worst performing Chinese companies.