

Nikko AM NZ Wholesale SRI 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

January 2008 – a similar portfolio has been operated by Nikko AM since August 2001.

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

Investment process

Nikko AM is an active style neutral manager with a lower risk approach to investment. Our domestic equity portfolio is constructed and managed with a blend of value and growth companies, with a modest Australian exposure (maximum 20% permitted).

In addition, the Fund has a negative screen to exclude liquor, tobacco, armaments and gambling equities.

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.

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.

Performance fee

Negotiated separately with each investor and invoiced outside the Fund.

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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Performance (NZD gross returns)

	Fund %	Benchmark %	Excess %
1 month	4.56	3.21	1.35
3 months	14.50	12.98	1.52
6 months	16.89	15.40	1.49
1 year	22.40	20.44	1.96
2 years (pa)	19.05	16.59	2.45
3 years (pa)	18.80	15.99	2.81
5 years (pa)	15.59	14.69	0.91

Fund size: \$16.4 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, N=neutral position

Top 10 holdings

Fisher & Paykel Healthcare	Summerset Holdings
Contact Energy	Metlife Care
Fletcher Building	Auckland Intl. Airport
Spark NZ	NZ Refining Coy
Infratil Limited	Z Energy

Number of holdings in portfolio **34**

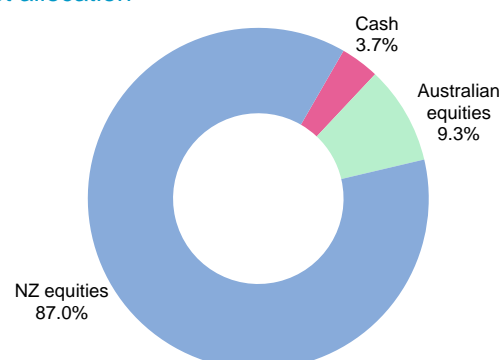
Sector allocation

	Fund %	Index %
Consumer discretionary	6.0	10.3
Consumer staples	3.7	2.7
Energy	8.0	4.6
Financials	6.2	12.9
Healthcare	27.5	17.4
Industrials	9.7	14.0
Information technology	2.1	1.7
Materials	8.9	9.2
Telecommunications	6.9	10.5
Utilities	17.4	16.7
Cash	3.7	-

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%). 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.