

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\$5 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

To construct a portfolio of authorised investments that outperform the Fund's benchmark return by 3.0% per annum over a rolling three year period before fees.

Benchmark

S&P/NZX 50 Index Gross with Imputation Credits

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

Currency management

Foreign currency exposures created as a consequence of capital markets investment may be hedged to NZD at the Manager's discretion with an operational range of 0% to 105%.

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.

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Performance (NZD gross returns)

	Fund	Benchmark	Excess
1 month	-2.47%	-1.95%	-0.52%
3 months	3.00%	2.29%	0.71%
6 months	10.59%	9.67%	0.92%
1 year	23.09%	21.89%	1.20%
2 years (pa)	20.03%	17.38%	2.66%
3 years (pa)	19.60%	17.31%	2.29%
5 years (pa)	17.38%	16.41%	0.97%
10 years (pa)	9.24%	8.30%	0.94%

Fund size

NZ\$255 million

Attribution

What helped	What hurt	
Air New Zealand	UW	NZ Refining
Sky TV Network	UW	Japara Healthcare
Aristocrat Leisure	OW	Z Energy Limited

OW: overweight; UW: underweight; NP: neutral position; NH: no holding

Largest deviations from index

Overweight	Underweight
Contact Energy	Ryman Healthcare
Infratil Ltd	Mighty River Power
Fisher & Paykel Healthcare	Kiwi Property Group

Top 10 holdings

Fisher & Paykel	Infratil Limited
Contact Energy	Sky City Entertainment
Fletcher Building	Summerset Group Holdings
Spark New Zealand	Metlife Care
Auckland International Airport	Restaurant Brands
Number of holdings in fund	35

Sector allocation

Sector	Fund	Index
Consumer discretionary	10.9%	9.8%
Consumer staples	4.9%	3.4%
Energy	6.5%	4.6%
Financials	5.3%	12.9%
Healthcare	24.7%	17.1%
Industrials	12.2%	14.4%
Information technology	1.6%	1.7%
Materials	8.2%	9.1%
Telecommunications	7.9%	10.4%
Utilities	16.3%	16.6%
Cash	1.7%	0%

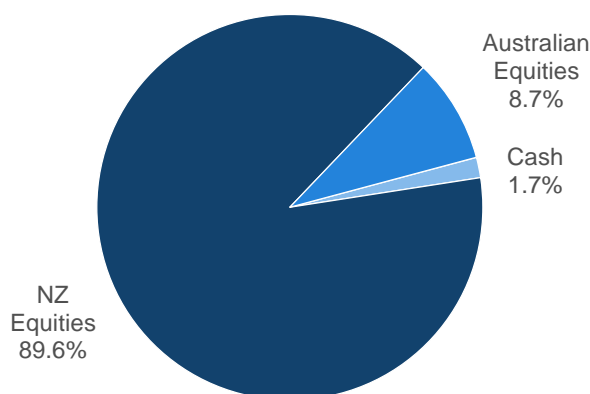
Hedging

Australian listed stocks are unhedged

Compliance

The Fund complied with its investment mandate during the month.

Asset allocation



Commentary

In the immediate aftermath of the Brexit “Leave” decision the NZ equity market fell sharply, down 3.4%, although most of this was made back in the final days of the quarter.

Aristocrat Leisure (ALL) which was introduced during the quarter rose 28.8% after a strong result driven by solid market share gains in both the US and Australian markets. The company’s innovation and strong R&D pipeline has driven these share gains. Restaurant Brands (RBD) continued its strong run from the end of the March quarter and rallied ~14% with a strong earnings result to follow their recently announced acquisition in NSWs

Our nil position in Air NZ was beneficial as the stock fell 26%. A combination of their previously announced loan to Virgin Australia and announcements from other airlines about further competition on AIR routes, drove the price reduction. Additionally our nil position in EBOS added value as the stock drifted lower.

NZ Refining (NZR) fell further over the quarter primarily on a mild deterioration in expected refining margins and hence profits, together with a planned shutdown of the hydrocracker. This detracted from performance materially our large relative weight. We expect the price to improve with confirmation of good operational performance for the remainder of the year.

Japara Healthcare (JHC) fell during the quarter on the release of the Australia Federal Budget. The budget has been incorrectly interpreted in our opinion and we remain confident of a reason medium term return supported by very strong demand for aged care beds in Australia.

Eroad (ERD) detracted from performance over the quarter at the company re-organises their North American business and deals with a period of lower business growth despite very supportive regulatory change. Our underweight position in Ryman Healthcare (RYM) detracted from performance especially during June. The performance is somewhat unexpected given usually strong headwinds for FY17.

During the quarter we exited Western Areas, Vista Group, Rio Tinto, Metro Performance Glass and ANZ Bank as our outlook for these stocks became more negative. We successfully traded our position in Sky Network Television but ended the quarter with a nil holding. Stocks added during the quarter were Aristocrat Leisure, NextDC and Tegal Group Holdings, which all performed as expected.

(**Bold** denotes stock held in portfolio.)