

# Nikko AM Wholesale Global Equity Unhedged 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. 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. 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

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

MSCI All Countries World Index (net dividends reinvested), expressed in NZD (unhedged)

## Distributions

At any date for any period fixed by the Manager

## Currency management

All currency exposures created as a consequence of global equity markets investment remain unhedged to NZD

## Trustee

Public Trust

## Custodian

Public Trust as legal custodian, BNP Paribas Fund Services Australasia Pty Limited delegated as functional custodian.

## 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. The securities selected by the global managers are directly held by this Fund. This 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%

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## Performance (NZD gross returns)

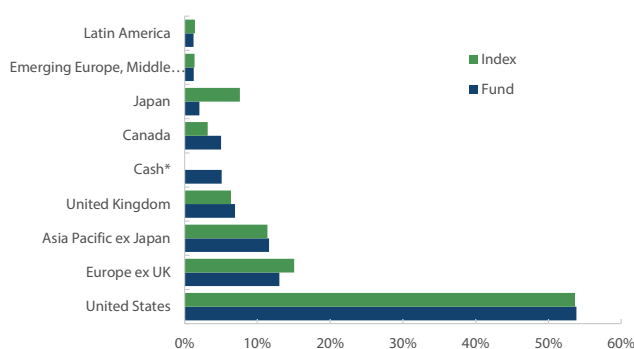
	Fund	Benchmark*	Excess
1 month	-5.83%	-5.58%	-0.25%
3 months	-1.26%	-1.55%	0.29%
6 months	-2.18%	-2.69%	0.52%
1 year	-5.05%	-8.58%	3.53%
2 years pa	12.50%	9.18%	3.33%
3 years pa	11.28%	9.29%	1.98%
5 years pa	10.95%	9.48%	1.47%

\* MSCI World Index, with net dividends reinvested – NZD unhedged prior to 1 June 2014

## Fund size

NZ\$503.5 million

## Geographical allocation



## Emerging markets

11% of Fund

## Sector allocation

Sector	Fund	MSCI
Consumer Discretionary	14.9%	12.3%
Consumer Staples	10.6%	10.9%
Energy	7.6%	7.0%
Financials	13.6%	19.7%
Health Care	9.3%	12.4%
Industrials	9.4%	10.2%
Information Technology	17.7%	15.0%
Materials	4.5%	4.9%
Telecommunication Services	3.6%	4.0%
Utilities	3.7%	3.6%
Cash*	5.1%	0.00%

\* includes the sum of the underlying managers' cash allocations

## Top 10 holdings

Company	Fund	MSCI	Country
Amazon.com	3.3%	0.8%	US
Encana Corp	1.6%	0.0%	Canada
Berkshire Hathaway	1.6%	0.5%	US
Facebook	1.4%	0.7%	US
Alphabet Class C	1.4%	0.6%	US
Taiwan Semiconductor	1.4%	0.4%	Taiwan
Alphabet Class A	1.3%	0.6%	US
Wells Fargo	1.2%	0.6%	US
Reckitt Benckiser Group	1.2%	0.2%	UK

## Compliance

The Fund complied with its investment mandate during the month.

## Manager allocations

Manager	Range	Actual
WCM Investment Mgmt	10-30%	25.3%
Principal Global Investors	10-30%	25.4%
Epoch Investments Partners Inc	10-30%	21.5%
Davis Selected Advisors LP	10-30%	22.4%
Nikko AM Limited (Derivatives)	0-10%	5.3%
Nikko AM Limited (Cash)	0-10%	0.1%

## Commentary

Global equities ended the quarter on a low due to the surprise 'leave' outcome of the EU referendum in the UK and global equities sold off sharply for the two days after. The anxiety however, was short-lived as stocks powered to strong gains during the last three days of June, on expectations of new stimulus efforts by the world's largest central banks. While the MSCI All Countries World Index returned 1.16% in US Dollars (USD) over the quarter, the benchmark return was significantly worse for New Zealand investors, falling -1.55% (NZD, unhedged) after most foreign currencies declined against the NZ dollar. On a fully hedged to NZD basis the index return for the quarter was 1.72%.

US, Swiss and Japanese equities held up relatively well compared to those in Europe. In European markets, Italy, Spain and Germany performed the worst, falling between 8-12%, while large cap UK equities performed surprisingly well in the Brexit aftermath. The FTSE 100 index declined only 4.6% (NZD, unhedged) over the quarter, but the broader FTSE 250 index suffered a loss of 13% (NZD, unhedged).

Among the major sectors, Consumer Discretionary fell 6.4%, followed by Financials and Information Technology, both declined by more than 4%. Defensive sectors like Utilities (up 1.4%) and Consumer Staples (up 0.9%) outperformed, while Energy (up 6.6%) benefitted from a 25% gain in the oil price over the quarter, its strongest performance since mid-2009. Most commodity prices were firmer during the 3-month period, though this largely reflected gains prior to the Brexit vote, and a post-Brexit surge in gold price.

The Fund returned -1.27% (unhedged in NZD) in the June quarter, outperforming the benchmark by 28 bps. For the 12-month period, the Fund's return of -5.06% was 351 bps better than the benchmark's return of -8.57% (unhedged NZD). On a fully hedged to NZD basis the Fund returned 1.89% versus the benchmark of -1.90%, giving outperformance of 3.79%. The biggest contributors to performance over the quarter was a significant overweight to Amazon.com which jumped 17%, followed by Canadian oil & gas explorer, Encana, which rose 23%. In the Technology sector, Mercadolibre (up 16%) and Tyler Technologies (up 26%) were two of the Fund's non-benchmark holdings adding value. Texas-based real estate investment trust, Crown Castle International surged 15% and was the Fund's best performing stock from the Financial sector. The disappointments over the quarter were poor performance by some of the Fund's Chinese holdings. Overweight positions in JD.com, YY Inc. and SouFun Holdings hurt performance the most. A significant underweight to the oil major, Exxon Mobil, which gained 10%, also detracted from performance.

Regarding Brexit, the Fund's exposure to UK-listed stocks made a positive contribution to performance. The top three UK holdings (Reckitt Benckiser, British American Tobacco and ARM Holdings) all outperformed, while the Fund had no exposure to some of the worst performing UK names like Lloyds, Banking, Prudential and Barclays.