nikko am
Nikko Asset Management

Nikko AM Wholesale Global Equity Hedged Fund

Fund manager

Nikko Asset Management New Zealand Limited (Nikko AM NZ).

In New Zealand we actively manages around 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.

Benchmark

MSCI All Countries World Index (net dividends reinvested) gross hedged 139% to NZD

Distributions

Generally does not distribute but may do so at Nikko AM NZ's discretion.

Hedging policy

Foreign currency exposures created as a consequence of capital markets investment are gross hedged at 139% to NZD. The permitted operational hedging range is 134% to 144%.

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 Portfolio Investment Entity (PIE) which is priced daily. Investors elect their own Portfolio Investor Rate. Each investor's return is subject to the foreign investment taxation regime, under the Fair Dividend Rate approach. Comparative Value method applies for hedging contracts. Information is provided to the IR and investors 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%

Performance (NZD gross returns)

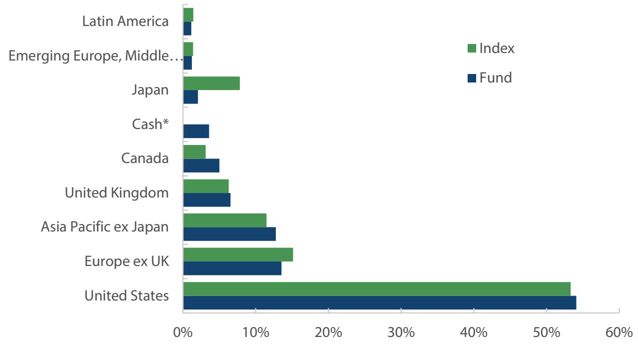
	Fund	Benchmark*	Excess
1 month	4.42%	4.71%	-0.29%
3 months	5.85%	5.56%	0.29%
6 months	10.84%	11.12%	-0.28%
1 year	3.15%	0.66%	2.50%
2 years pa	10.30%	6.81%	3.49%
3 years pa	12.70%	10.60%	2.10%
5 years pa	13.53%	12.36%	1.18%

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

Fund size

NZ$331 million

Geographical allocation



Emerging markets **11.7% of Fund**

Sector allocation

Sector	Fund	MSCI
Consumer Discretionary	15.5%	12.4%
Consumer Staples	10.6%	10.6%
Energy	7.1%	6.6%
Financials	14.5%	19.8%
Health Care	9.9%	12.4%
Industrials	9.7%	10.4%
Information Technology	17.3%	15.4%
Materials	4.6%	5.0%
Telecommunication Services	3.8%	3.9%
Utilities	3.6%	3.5%
Cash*	3.6%	0.0%

* includes the sum of the underlying managers' cash allocations

Top 10 holdings

Company	Fund	MSCI	Country
Amazon.com	3.2%	0.8%	US
Facebook	1.6%	0.8%	US
Berkshire Hathaway	1.5%	0.5%	US
Encana Corp	1.5%	0.0%	Canada
Alphabet, Class A	1.5%	0.6%	US
Taiwan Semiconductor	1.5%	0.4%	Taiwan
Alphabet, Class C	1.4%	0.6%	US
Reckitt Benckiser Group	1.3%	0.2%	UK
Wells Fargo & Co	1.2%	0.6%	US
JP Morgan Chase	1.2%	0.6%	US

Compliance

The Fund complied with its investment mandate during the month.

Manager allocations

Manager	Range	Actual
WCM Investment Mgmt	10-30%	27.3%
Principal Global Investors	10-30%	26.3%
Epoch Investments Partners Inc	10-30%	22.2%
Davis Selected Advisors LP	10-30%	22.4%
Nikko AM Limited (Derivatives)	0-10%	2.6%
Nikko AM Limited (Cash)	0-10%	-0.8%

Commentary

Global equity markets rose in July with the MSCI All Country World Index posting 4.22% in US dollar terms, driven by generally supportive macroeconomic data and corporate earnings. Increasing speculation that various governments around the world may soon abandon austerity and embarking on debt-fueled infrastructure programs also helped drive markets.

The Fund returned 4.42% in July, trailing the benchmark by 29 basis points (bps). For the rolling 12-month period, the Fund's return of 3.15% was 250 bps better than the benchmark's return of 0.66%.

In July, three of the four managers outperformed. PGI (+74 bps), Davis (+47 bps) and WCM (+34 bps) added value through a combination of good stock selection and overweighting to the Technology and Healthcare sectors. However, the defensive manager, Epoch, lagged the benchmark by 250 bps. Most of the value was detracted by large overweights in Telecoms and Utilities, which both underperformed, and a large underweight to the Technology sector which outperformed. Stock selections in Financials and Consumer Staples were also negative contributors to performance for Epoch.

Individual stocks making the biggest positive impact on performance include Carmax (up 17%), Quintiles Transnational (up 17%) and VIPShop (up 26%). The Fund also benefitted from an underweight to the oil major, Exxon Mobil, which fell 6% in July. CarMax is a leading used car and truck retailer in the USA. CarMax focuses on late-model, low-mileage used vehicles that are 1–5 years old with fewer than 60,000 miles. The company operates about 158 stores across the US and is expected to grow its store base by 13–16 stores per year for at least the next several years. With its proprietary buying, pricing, and inventory management systems, CarMax has significant competitive advantages over competitors.

Quintiles Transnational is a contract research organization (CRO) and the largest provider of biopharmaceutical development services. Quintiles recently announced a strategic alliance with kidney care leader, DaVita Clinical Research (DCR), bringing together DaVita's expertise in nephrology and Quintiles's global delivery capabilities to accelerate clinical trials in this field. One of DCR's competitive advantages lies in the fact that it is a part of an integrated company that provides healthcare, giving it access to real-world patient data and experience. This deal should help Quintiles gain new business.

The major detractors to performance were overweight positions in the British household products group, Reckitt Benckiser (down 3.7%), the wireless communications infrastructure operator, Crown Castle (down 5.5%) and the oil services company, Core Laboratories (down 6.4%).