

Nikko AM Wholesale SRI Equity Fund

Fund manager

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

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

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

Investment objective

To construct a portfolio of authorised investments that aims to 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

Investment process

Nikko AM NZ 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 Portfolio Investment Entity (PIE) which is priced daily. Investors select 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 IR and investors on an annual basis.

Distributions

Generally on calendar quarters, or at any date for any period determined 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	6.01%	6.53%	-0.52%
3 months	7.88%	7.73%	0.15%
6 months	19.62%	19.09%	0.53%
1 year	23.38%	24.10%	-0.72%
2 years (pa)	20.73%	19.24%	1.49%
3 years (pa)	19.37%	17.43%	1.94%
5 years (pa)	17.53%	16.69%	0.84%

Fund size

NZ\$16.6 million

Attribution

What helped	What hurt
Ryman Health Care	UW NZ Refining
Ebos Group	UW Restaurant Brands
Port of Tauranga	UW NZ Refining

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

Top 10 holdings

Fisher & Paykel Healthcare	Infratil Limited
Fletcher Building	Summerset Group Holdings
Contact Energy Limited	Metlifecare
Auckland International Airport	New Zealand Refining
Spark New Zealand	Restaurant Brands
Number of holdings in fund	33

Sector allocation

Sector	Fund	Index
Consumer discretionary	4.9%	10.0%
Consumer staples	4.7%	3.3%
Energy	7.1%	4.5%
Financials	6.2%	12.7%
Healthcare	25.0%	16.5%
Industrials	12.8%	14.6%
Information technology	2.6%	1.8%
Materials	9.0%	9.2%
Telecommunications	7.6%	11.0%
Utilities	17.5%	16.3%
Cash	2.6%	

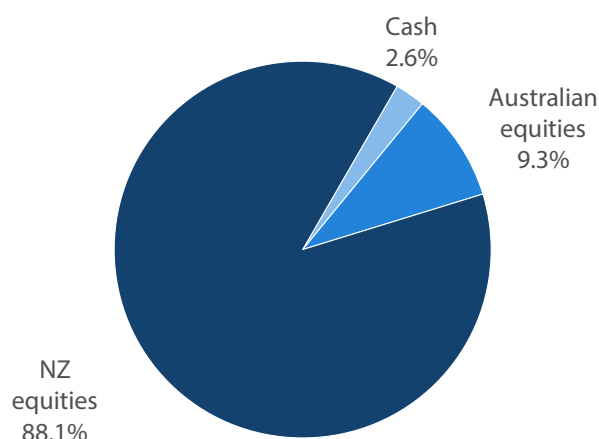
Hedging

Australian listed stocks are unhedged

Compliance

The Fund complied with its investment mandate during the month.

Asset allocation



Commentary

The New Zealand equity market performed very well over the month returning 6.53% to add to the already stellar performance for the year to date. Global equity markets were also quite positive following the Brexit referendum in the UK and the immediate aftermath which settled quickly on a consensus of co-ordinated central bank support. The Australian market was strong, up 6.29% while the US and the UK were up 3.56% and 3.38% respectively. NZ market was also helped by the RBNZ signaling a likely OCR cut in August.

The Fund performed acceptably but slightly behind the very strong NZ market. The underweight in Ryman Healthcare (RYM) added relative value as the company lagged behind the market. One of our more recent additions. Both Ebos (EBO) and Port or Tauranga (POA) added relative value to the Fund as their stock prices went sideways for the month against the strong market.

NZ Refining (NZR) detracted from performance as the stock traded flat for the month. We expect the price to be supported by confirmation of good operational performance for the remainder of the year notwithstanding the mild deterioration in expected refining margins and hence profits.

Restaurant Brands (RBD) and Metlifecare (MET) continued their recent good price appreciation but did modestly underperform the strong market and hence detracted value.

During the month we exited Orion Healthcare following very strong period of performance from our entry levels below \$3.00. We introduced Aconex (ACX) into the Fund attracted by the company's excellent collaborative SaaS platform to manage construction projects globally, their growth prospects and their existing blue chip client base. We also introduced Investore Property (IPL), a listed property operator with an attractive tenant base, long lease terms and compelling yield support.

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