

Nikko AM Wholesale Core Equity Fund

Fund manager

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

In New Zealand we actively manage around 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 NZ 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 NZ 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 Portfolio Investment Entity (PIE) which is priced daily. Investors 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 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	0.43%	0.69%	-0.26%
3 months	4.41%	5.20%	-0.79%
6 months	20.40%	19.38%	1.02%
1 year	31.80%	32.37%	-0.57%
2 years (pa)	22.41%	20.61%	1.80%
3 years (pa)	21.08%	19.19%	1.89%
5 years (pa)	19.73%	18.89%	0.84%
10 years (pa)	10.33%	9.26%	1.07%

Fund size

NZ\$263 million

Attribution

What helped	What hurt
Summerset (SUM)	Japara Healthcare (JHC)
Metlifecare (MET)	Fisher & Paykel Health (FPH)
Chorus (CNU)	Contact Energy (CEN)

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

Largest deviations from index

Overweight	Underweight
Contact Energy (CEN)	Ryman (RYM)
Infratil (IFT)	Kiwi Income Prop (KPG)
Summerset (SUM)	Mercury (MCY)

Top 10 holdings

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

Sector allocation

	Fund	Index
Consumer discretionary	11.9%	10.1%
Consumer staples	5.5%	3.2%
Energy	6.4%	4.4%
Financials	1.5%	3.1%
Healthcare	21.7%	16.2%
Industrials	13.6%	14.8%
Information technology	1.7%	1.8%
Materials	9.6%	10.2%
Real Estate	3.6%	9.7%
Telecommunications	7.4%	10.3%
Utilities	16.4%	16.2%
Cash	0.7%	

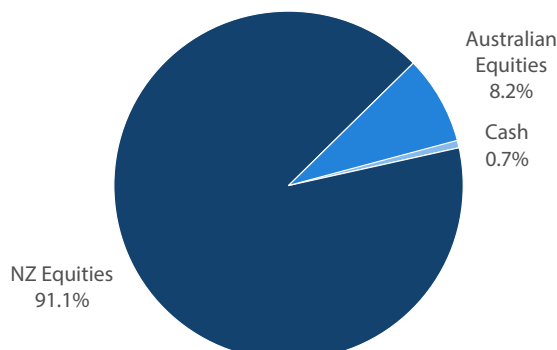
Hedging

Australian listed stocks are unhedged

Compliance

The Fund complied with its investment mandate during the month.

Asset allocation



Commentary

The S&P/NZX 50 Gross Index rose 0.69% in August 2016 with 'small caps' outperforming leaders. The S&P/ASX200 Accumulation Index, S&P500 and FTSE100 returned -1.6%, +0.1% and +1.7% respectively in local currencies. Most indices performed poorly leading into the end of the month. On an annual basis, the NZX 50 Index has recorded an impressive 32.4% rise with the most recent earnings season generally providing good news. Results were in line with expectations with increased dividends continuing to be the main theme.

The Fund underperformed by 0.26% during the month returning 0.43%. Retirement stocks had a strong month with the largest positive contributors to relative return coming from the Fund's overweight positions in **Summerset Group** (SUM) and **Metlifecare** (MET). Both companies reported strong operating results with additional support coming from valuation uplifts.

Not holding Chorus also added relative value as the stock fell after reporting a mild decline in earnings for the year ended 30 June 2016. Conversely our modest overweight in **NZ Oil and Gas** (NZO) performed strongly over the month to rally ~16% following the annual earnings announcement.

Japara Healthcare (JHC) fell 18.4% after continuing concerns for government funding, a below expectations outlook in its result and big misses from other sector companies results.

Fisher & Paykel Healthcare (FPH) detracted from performance after a stellar run. The company fell after announcing pending legal action against one of their competitors, Resmed, who immediately initiated counter suits.

Both **Contact Energy** (CEN) and **NZ Refining** (NZR) detracted from relative performance given our overweight positions, as the stock prices fell. CEN marginally disappointed for the full year result while NZR announced stronger than expected results which were none the less weak compared to the prior year.

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