

Nikko AM Wholesale Global Equity Unhedged 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. 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

Does not distribute, but may do so at Nikko AM NZ's discretion.

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 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. 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 investors 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 an expectation 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)

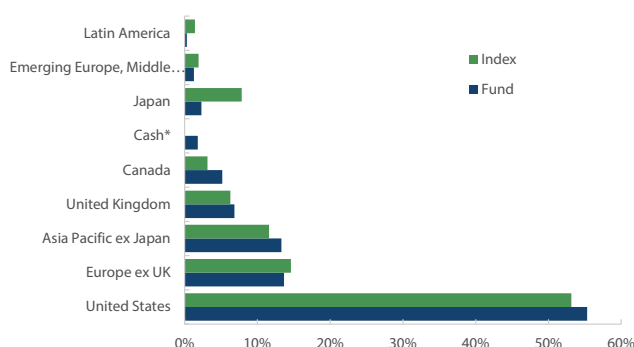
| | Fund | Benchmark* | Excess |
|------------|--------|------------|--------|
| 1 month | 0.08% | -0.26% | 0.34% |
| 3 months | -3.19% | -2.99% | -0.20% |
| 6 months | 3.10% | 3.18% | -0.08% |
| 1 year | -4.41% | -6.39% | 1.99% |
| 2 years pa | 11.03% | 7.69% | 3.34% |
| 3 years pa | 11.41% | 9.25% | 2.16% |
| 5 years pa | 13.83% | 12.86% | 0.97% |

* MSCI All Countries World Index (net dividends reinvested). Prior to 1 June 2014 MSCI World Index (net dividends reinvested). NZD unhedged

Fund size

NZ\$526 million

Geographical allocation



Emerging markets

11.7% of Fund

Sector allocation

| Sector | Fund (%) | Benchmark (%) |
|----------------------------|----------|---------------|
| Consumer Discretionary | 15.5 | 12.8 |
| Consumer Staples | 10.7 | 10.4 |
| Energy | 7.4 | 6.6 |
| Financials | 14.0 | 20.5 |
| Health Care | 10.2 | 11.9 |
| Industrials | 10.1 | 10.5 |
| Information Technology | 18.2 | 15.7 |
| Materials | 4.9 | 5.1 |
| Telecommunication Services | 3.7 | 3.8 |
| Utilities | 3.5 | 3.3 |
| Cash* | 1.8 | 0.0 |

* includes the sum of the underlying managers' cash allocations

Top 10 holdings

| Company | Fund (%) | MSCI (%) | Country |
|---|----------|----------|---------|
| Amazon.com Inc | 3.1 | 0.8 | US |
| Encana Corp | 1.6 | 0.0 | Canada |
| Berkshire Hathaway Inc | 1.6 | 0.5 | US |
| Facebook Inc | 1.5 | 0.8 | US |
| Taiwan Semiconductor Manufacturing Co Ltd | 1.5 | 0.4 | Taiwan |
| Alphabet Inc Class A | 1.4 | 0.6 | US |
| Alphabet Inc Class C | 1.3 | 0.6 | US |
| Reckitt Benckiser Group PLC | 1.3 | 0.2 | UK |
| Wells Fargo & Co | 1.3 | 0.7 | US |
| Naspers Ltd | 1.1 | 0.2 | RSA |

Compliance

The Fund complied with its investment mandate during the month.

Manager allocations

| Manager | Range | Actual* |
|--------------------------------|--------|---------|
| WCM Investment Mgmt | 10-30% | 27.7% |
| Principal Global Investors | 10-30% | 26.4% |
| Epoch Investments Partners Inc | 10-30% | 22.0% |
| Davis Selected Advisors LP | 10-30% | 22.6% |
| Nikko AM Limited (Derivatives) | 0-10% | 2.8% |
| Nikko AM Limited (Cash) | 0-10% | -1.4% |

*Figures may not add to 100% due to rounding

Commentary

Global equity markets rose in August with the MSCI All Country World Index up 0.7% in local currency terms. However, with a strengthening New Zealand dollar, the benchmark return in NZD for unhedged investors was -0.26%. Against this backdrop the Fund performed well providing a modestly positive return of 0.08% for the month.

During August it was Davis's return of 4.1% that provided the bulk of the positive performance with PGI (-0.8%) and WCM (-0.3%) modestly underperforming and Epoch lagging with a return of -2.5%.

Emerging Markets strongly outperformed their Developed Market counterparts during the month (MSCI EM index was up 2.52% in the month), and it was Davis's emerging market stocks that were the major factor in its outperformance.

A significant detractor for Epoch was the holding in Corrections Corporation (CCA) which fell just over 50% in the month on the back of the Department of Justice's decision to end its use of private prisons. Epoch's overweight positions in the telecom and utility sectors also hurt performance.

Across the Fund as a whole, stock positions adding the most value in August included MercadoLibre (up 12%), TD Ameritrade (up 9%), Ctrip (up 8.5%), and Angie's List (up 25.5%).

Within the healthcare sector, the Fund benefitted from a nil position in pharmaceutical company Bristol-Myers Squibb, which fell 23% due to disappointing results regarding its cancer immunotherapy, Opdivo. Similarly, nil positions in Allergan (down 7.3%) and UnitedHealth Group (down 5%) also added to performance. While the portfolio maintains an underweight to Healthcare, strong stock selection within the sector added to performance, with the gains in Livanova (+16.9%) and Sinopharm (+7.1%) being the most notable.

Major detractors for the month included TripAdvisor (down 12.8%), Techtronic Industries (down 4.2%), Apache Corp (5.3%), and Core Laboratories (down 4.3%).