

# 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 Prescribed Investor 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	0.24%	-0.02%	0.26%
3 months	7.32%	7.26%	0.06%
6 months	10.53%	9.72%	0.81%
1 year	34.39%	33.15%	1.24%
2 years (pa)	21.38%	19.91%	1.47%
3 years (pa)	18.96%	17.34%	1.62%
5 years (pa)	19.66%	18.63%	1.03%
10 years (pa)	10.05%	8.98%	1.07%

### Fund size

NZ\$262 million

### Attribution

What helped	What hurt
Summerset Group	OW Japara Healthcare
Chorus Ltd	UW Contact Energy
Metlife Care	OW Fisher & Paykel

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

### Largest deviations from index

Overweight	Underweight
Contact Energy	Ryman Healthcare
Infratil Limited	Mercury NZ Limited
Summerset Group Holdings	Kiwi Property Group

### Top 10 holdings

Fletcher Building	Infratil Limited
Contact Energy	Sky City Entertainment
Auckland International Airport	Summerset Group Holdings
Spark New Zealand	MetlifeCare
Fisher & Paykel Healthcare	Restaurant Brands
<b>Number of holdings in fund</b>	<b>34</b>

### Sector allocation

	Fund	Index
Healthcare	19.5%	16.9%
Utilities	16.0%	15.8%
Industrials	13.1%	14.6%
Consumer discretionary	12.3%	10.1%
Telecommunications	9.3%	10.1%
Materials	9.1%	9.1%
Consumer staples	6.7%	3.8%
Energy	5.8%	4.4%
Real Estate	3.5%	9.6%
Cash	3.1%	0.0%
Information technology	1.6%	2.5%
Financials	0.0%	3.1%

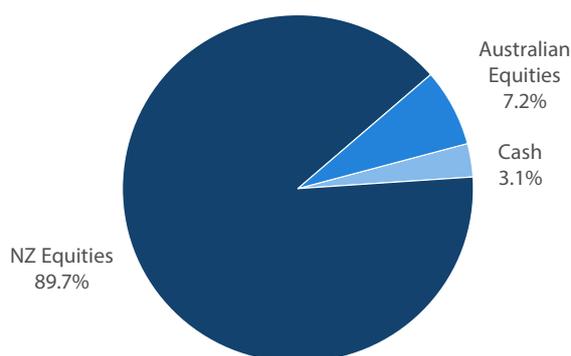
### Hedging

Australian listed stocks are unhedged at the date of this Fact Sheet.

### Compliance

The Fund complied with its investment mandate during the month.

### Asset allocation



### Commentary

The S&P/NZX 50 Index Gross (with imps) rose 7.26% for the quarter bringing the YTD return to 17.6%. Although the quarterly return is impressive it hides a fall from lifetime highs and a modest recovery during the month of September. The S&P/ASX200 Accumulation Index, S&P500 and FTSE100 returned +5.1%, +3.3% and +6.1% respectively in local currencies.

The Fund performed in-line with the benchmark during the quarter returning 7.32% versus the benchmark of 7.26%.

The retirement stocks had a strong period with the largest positive contributors to relative return coming from the overweight positions in **Summerset Group** (SUM) and **Metlifecare** (MET). Both companies reported strong operating results with additional support coming from valuation uplifts.

The nil position in Chorus added relative value as the stock fell sharply on concerns for lost copper lines and accelerating fibre uptake which leads to higher capex. This dynamic was the core reason for a nil holding recently.

Kiwi Property Group added relative value (nil holding) as the stock fell while the market considered challenging valuation metrics for the company and an extensive development pipeline.

Performance was hurt by **Japara Healthcare** (JHC) which fell 17.2% after continuing concerns for Government funding, a below expectations outlook in its result and big misses from other sector companies results. We continue to see value in Japara in the medium term.

**Contact Energy** (CEN) had a poor quarter with the stock lower against a positive market notwithstanding compelling valuation support. The result announcement during the quarter was average and outlook comments concerned the market.

**Fisher & Paykel Healthcare** (FPH) pulled back following a very strong, multi-year rally. The stock was hurt by a modestly negative tone to their AGM update and pending legal action between FPH and their Australian competitor, Resmed.

A number of changes were made over the quarter. Companies sold included NEXTDC (NXT) Orion Healthcare (OHE), NZ Oil and Gas (NZO), Xero (XRO) and Westpac Bank (WBC).

Additionally **Fisher and Paykel Healthcare** (FPH) was reduced from a substantial overweight position. New companies introduced over the period included **Aconex** (ACX), **Investore Property** (IPL), **Comvita** (CVT) and **Chorus** (CNU).

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