

# 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). Prior to 1 June 2014 MSCI World Index (net dividends reinvested). 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 Prescribed 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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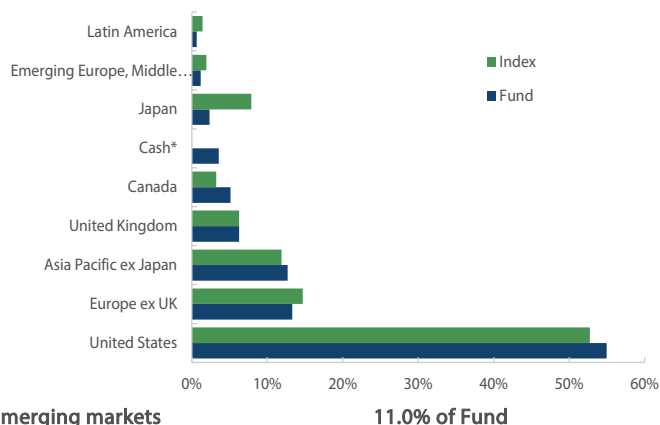
### Performance (NZD gross returns)

	Fund	Benchmark	Excess
1 month	0.81%	0.38%	0.43%
3 months	3.63%	3.13%	0.51%
6 months	2.33%	1.53%	0.80%
1 year	-0.30%	-1.51%	1.21%
2 years pa	9.49%	5.84%	3.65%
3 years pa	12.48%	10.31%	2.17%
5 years pa	13.57%	12.48%	1.09%

### Fund size

NZ\$535 million

### Geographical allocation



### Emerging markets

11.0% of Fund

### Sector allocation

Sector	Fund (%)	Benchmark (%)
Information Technology	17.3%	15.9%
Consumer Discretionary	16.0%	12.3%
Financials	11.0%	16.9%
Health Care	10.5%	11.7%
Consumer Staples	10.3%	10.4%
Industrials	9.5%	10.4%
Energy	7.9%	6.9%
Materials	4.8%	5.0%
Telecommunication Services	3.5%	3.8%
Cash*	3.5%	0.0%
Utilities	3.3%	3.3%
Real Estate	2.4%	3.4%

\* includes the sum of the underlying managers' cash allocations

### Top 10 holdings

Company	Fund (%)	MSCI (%)	Country
Amazon.com	3.23%	0.90%	US
Encana Corp	1.74%	0.03%	Canada
Alphabet, Class A	1.69%	0.64%	US
Taiwan Semiconductor	1.57%	0.39%	Taiwan
Facebook	1.51%	0.80%	US
Berkshire Hathaway	1.45%	0.46%	US
Wells Fargo & Co	1.25%	0.57%	US
Reckitt Benckiser Group	1.22%	0.16%	Britain
Apache Corp	1.17%	0.06%	US
Naspers	1.16%	0.20%	SA

### Manager allocations

Manager	Range	Actual*
WCM Investment Mgmt	10-30%	26.9%
Principal Global Investors	10-30%	25.8%
Epoch Investments Partners Inc	10-30%	21.2%
Davis Selected Advisors LP	10-30%	22.2%
Nikko AM Limited (Derivatives)	0-10%	2.6%
Nikko AM Limited (Cash)	0-10%	1.3%

\*Figures may not add to 100% due to rounding

### Commentary

The MSCI All Countries World Index was up 3.13% (NZD, unhedged) in the third quarter, erasing the second quarter's decline. Emerging markets have been much stronger, up 6.70% in the third quarter for a year-to-date gain of 9%.

Across equity regions, Asia Pacific was the strongest, led by China (up 11%), Taiwan (up 9%) and Japan (up 6%). Performance across Europe was mixed, with Germany and Spain both up more than 7%, while Italy was flat and Denmark fell 7%. The Danish market's sharp decline was largely driven by the diabetes care drug maker Novo Nordisk (down 22%).

Among the major sectors, Information Technology (up 11%) was extremely strong over the quarter, driven by significant gains in heavyweights Apple (up 16%), Microsoft (up 11%), Facebook (up 10%) and Alphabet (up 10%). Materials (up 7.5%) was the next best performing sector, with gains across both the Metals & Mining (up 10%) and Chemicals (up 6%) industries. Defensive sectors lagged the overall market, with Consumer Staples (down 2.5%), Telecoms (down 3.7%) and Utilities (down 5.1%) all in retreat over the quarter.

The Fund returned 3.63% in the September quarter, outperforming the benchmark by 51 basis points (bps). Of the four sub-managers, Davis led the charge with a return of 9.93% for the quarter, to outperform by 680 bps. Its strong performance can be attributed to large gains in oil & gas exploration companies, Encana (up 31%) and Apache (up 13%), as well as the world's largest cement producer, LafargeHolcim (up 28%). Another major contributor to Davis' success was Amazon.com (up 14%) which traded up to a new record high of USD 837 per share. While Davis has been reducing their position in Amazon, it is still a significant 5% position in their portfolio. The performance of PGI (3.79%) and WCM (3.66%) were more in line with the benchmark, and performance highlights included large gains in Mercadolibre (up 29%), Taiwan Semiconductor (up 14%) and TD Ameritrade (up 22%). The value manager, Epoch (-2.09%), struggled however on account of its overweight to defensive yield plays which underperformed in anticipation of a potential US rate hike in December. Detracting the most from performance, was private prison operator, Corrections Corp of America (down 60%), in response to an announcement by the US Department of Justice in mid-August that it would be gradually moving away from the use of private prisons. Other significant detractors were tobacco companies, Reynolds American (down 14%) and Altria Group (down 9.5%), as well as the utility holding company, PPL Corp (down 10%).

### Compliance

The Fund complied with its investment mandate during the month.