

# 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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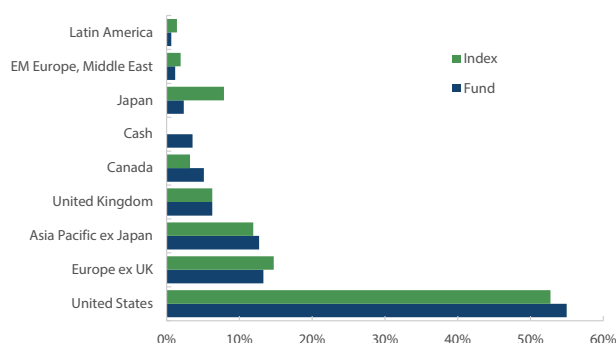
## Performance (NZD gross returns)

	Fund	Benchmark	Excess
1 month	-1.89%	-0.08%	-1.81%
3 months	-1.02%	0.04%	-1.06%
6 months	-0.10%	0.69%	-0.79%
1 year	-3.53%	-3.49%	-0.04%
2 years pa	7.64%	5.32%	2.31%
3 years pa	10.10%	8.65%	1.44%
5 years pa	12.32%	11.61%	0.70%

## Fund size

NZ\$530 million

## Geographical allocation



Emerging markets: 11.6% of Fund

## Sector allocation

Sector	Fund (%)	Benchmark (%)
Consumer Discretionary	16.1	12.2
Consumer Staples	10.1	10.1
Energy	7.5	6.9
Financials	11.6	17.6
Health Care	10.6	11.1
Industrials	10.2	10.5
Information Technology	16.9	16.1
Materials	4.9	5.2
Real Estate	2.4	3.3
Telecommunication Services	3.5	3.7
Utilities	3.3	3.4
Cash*	2.8	0.0

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

## Top 10 holdings

Company	Fund (%)	MSCI (%)	Country
Amazon.com	3.1	0.9	US
Alphabet Class C	1.7	0.7	US
Taiwan Semiconductor	1.7	0.4	Taiwan
Encana Corp	1.6	0.0	Can
Facebook	1.6	0.8	US
Berkshire Hathaway	1.5	0.5	US
Wells Fargo	1.5	0.6	US
Naspers	1.2	0.2	SA
Reckitt Benckiser Group	1.2	0.2	UK
Apache Corp	1.1	0.1	US

## Manager allocations

Manager	Range	Actual*
WCM Investment Mgmt	10-30%	26.6%
Principal Global Investors	10-30%	26.1%
Epoch Investments Partners Inc	10-30%	21.3%
Davis Selected Advisors LP	10-30%	22.0%
Nikko AM Limited (Derivatives)	0-10%	2.7%
Nikko AM Limited (Cash)	0-10%	1.3%

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

## Commentary

As the polls started tightening ahead of the US Presidential Election, investors moved further into a risk-reduction mode in October, sending most global equity markets somewhat lower during the month. Although equity markets generally struggled to make much progress in October, there was a meaningful sector rotation within markets.

The Fund trailed the benchmark over October. The underperformance was due to a mix of adverse regional allocation, negative sector contributions and poor stock selection. Of the four sub-managers, Davis (-2.99%) and WCM (-2.85%) contributed about three quarters to the Fund's underperformance, on an unhedged basis.

The negative contribution from regional allocation came mostly from the underweight exposure to Japan (up 3%) which was one of the best performing countries. The overweight exposure to Canada made a positive contribution to performance. Among the major sectors, Financials (up 3.9%) performed the best in response to the yield curve which started to reflect some inflationary pressures. As a consequence, the Fund's significant underweight to Financials was a drag on performance. There were a few positives however, with the underweight exposures to Healthcare (down 5.2%) and Real Estate (down 3.3%) adding some value.

Among the Fund's individual holdings, the largest detractors from performance were Canadian oil and gas explorer, Encana (down 7%) and online Chinese real estate portal, Fang Holdings (down 24%). Encana's share price had already doubled this year, so some profit taking was to be expected. Amazon.com (down 3.9%) and Danish biotechnology firm Novozymes (down 14%) were also among the main laggards.

The main positives in October were TAL Education Group (up 17%), Taiwan Semiconductor (up 3.6%) and Wells Fargo (up 5.9%). There was corporate action in late October; The UK-domiciled British American Tobacco (BAT) offered to pay USD 47 billion for the 58% of Reynolds American (up 19%) that it doesn't already own, seeking to create the world's largest publicly traded cigarette maker. The cash-and-stock proposal values each Reynolds share at USD 56.50, which represented a 20% premium to the Reynolds' share price the day before the BAT offer was announced. The Reynolds board is currently evaluating the offer, and if successful, the planned combination would likely overtake Philip Morris International as the world's largest publicly traded tobacco company.

## Compliance

The Fund complied with its investment mandate during the month.