

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	-0.54%	-0.84%	0.30%
3 months	-6.16%	-6.26%	0.09%
6 months	-2.02%	-1.39%	-0.63%
1 year	15.64%	14.40%	1.24%
2 years (pa)	15.50%	14.16%	1.35%
3 years (pa)	15.79%	14.33%	1.46%
5 years (pa)	18.46%	17.59%	0.88%
10 years (pa)	8.55%	7.45%	1.09%

Fund size

NZ\$245 million

Attribution

What helped	What hurt	
NZ Refining	OW	Aconex OW
a2 Milk	OW	Air New Zealand NH
Mainfreight	OW	Infratil OW

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

Largest deviations from index

Overweight	Underweight
Summerset Group	Ryman Healthcare
Contact Energy	Mercury NZ
Restaurant Brands	Sky Network TV

Top 10 holdings

Fletcher Building Ltd	Fisher & Paykel Healthcare
Spark New Zealand	Infratil Limited
Contact Energy Ltd	Meridian Energy
AK International Airport	Restaurant Brands
Summerset Group Holdings	Metlife Care
Number of holdings in fund	31

Sector allocation (%)

	Fund	Index
Health Care	19.2	15.5
Utilities	18.8	15.9
Industrials	13.2	14.5
Consumer Discretionary	12.1	9.8
Telecommunication Services	10.0	10.6
Materials	8.8	9.3
Energy	7.0	4.2
Consumer Staples	5.0	4.6
Real Estate	2.5	9.8
Information Technology	1.3	2.4
Cash	2.1	0.0
Financials	0.0	3.4

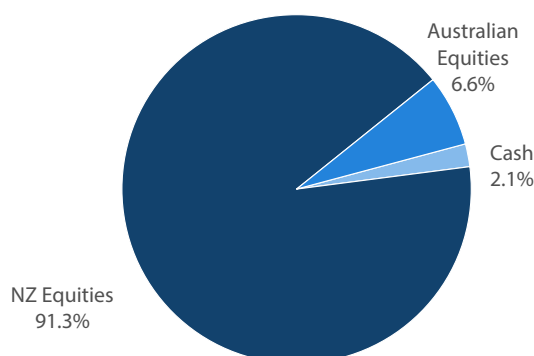
Hedging

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

All eyes were on the United States election early in the month which produced a surprise (relative to polls) victory for Donald Trump. Equity markets initially treated the result quite negatively before trading higher on the back of what was viewed as a more moderate / inclusive speech from President Elect Trump. The MSCI World Index ended the month up 2.1%. The bond markets did not fare so well, with the likes of the US 10-year rate rising 56 basis points over the month. The New Zealand equity market, with a yield focus was impacted by the bond sell off and ended the month down 0.84% as measured by the S&P/NZX 50. The Australian market performed more in line with global markets, up 3.0% based on the S&P/ASX 200 index.

The Fund modestly outperformed the index by 0.30% but was nonetheless still down 0.54% in absolute terms. The position in **NZ Refining Company** (NZR) which rose 15.2% over the month added the most value as refining margins rose and the NZ dollar fell assisting the earnings outlook for the company.

The **a2 Milk Company** (ATM) announced that for the first four months of their financial year 2017 revenue had grown by 96% year-on-year and EBITDA had grown 473%, ahead of consensus expectations. ATM shares rose 7.1% on the day of the announcement and 32.5% for the month of November adding to relative fund performance. **Mainfreight** (MFT) also added value following their first half profit result and positive outlook comments relating to current trading.

Aconex (ACX) continued to hurt fund performance with the stock down 19.4% for the month despite not making any significant announcements. Sentiment is yet to find a base for tech companies following Trump's election. Our nil holding in Air NZ (AIR) detracted from performance as the stock rallied modestly against a negative index despite an underwhelming operational update.

Our substantial overweight **Infratil** (IFT) detracted from performance as the first half result disappointed the market. The performance portfolio companies, Trustpower and Perth Energy were the main detractors within the result.

During the month the Fund exited its investment in Mirvac Group, the Australia listed property trust to raise general liquidity in the Fund. The Fund also made other minor adjustments including adding to our investment in **Aristocrat Leisure** (ALL), **Restaurant Brands** (RBD) and **Pacific Edge** (PEB).