Nikko AM Wholesale Global Equity Hedged 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) gross hedged 139% to NZD. Prior to 1 July 2016 MSCI All Countries World Index (net dividends reinvested) 100% hedged to NZD. Prior to 1 June 2014 MSCI World Index (net dividends reinvested) 100% hedged to NZD).

Distributions

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

Hedging policy

Foreign currency exposures created as a consequence of capital markets investment are gross hedged at 139% to NZD. The permitted operational hedging range is 134% to 144%.

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. Comparative Value method applies for hedging contracts. 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 unit holders 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%

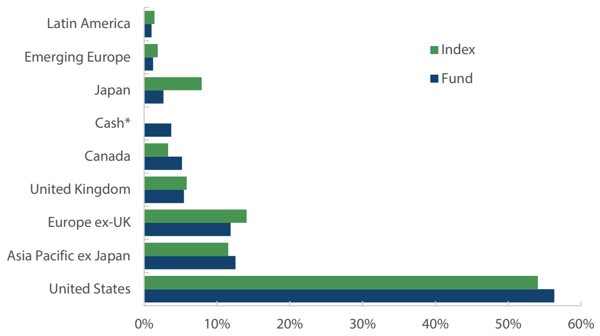
Performance (NZD gross returns)

	Fund	Benchmark	Excess
1 month	0.59%	1.90%	-1.31%
3 months	-1.12%	1.92%	-3.04%
6 months	3.41%	7.07%	-3.66%
1 year	3.32%	6.42%	-3.10%
2 years pa	6.57%	5.33%	1.24%
3 years pa	9.62%	8.70%	0.92%
5 years pa	14.64%	14.42%	0.22%

Fund size

NZ$326 million

Geographical allocation



Emerging markets: 11.3% of Fund

Sector allocation

Sector	Fund (%)	Benchmark (%)
Consumer Discretionary	16.8%	12.3%
Information Technology	16.4%	15.7%
Financials	12.0%	18.5%
Health Care	10.0%	11.1%
Industrials	9.9%	10.8%
Consumer Staples	9.5%	9.5%
Energy	8.0%	7.2%
Materials	5.0%	5.3%
Cash*	3.7%	0.0%
Telecommunication Services	3.4%	3.5%
Utilities	3.0%	3.1%
Real Estate	2.2%	3.1%

* includes the sum of the underlying managers' cash allocations

Top 10 holdings

Company	Fund (%)	MSCI (%)	Country
Amazon.com	2.96	0.82	US
Encana Corp	1.86	0.03	Canada
Wells Fargo & Co	1.68	0.69	US
Alphabet Class C	1.65	0.64	US
Taiwan Semiconductor	1.58	0.00	Taiwan
Facebook Inc	1.53	0.74	US
Berkshire Hathaway	1.30	0.51	US
Apache Corp	1.26	0.07	US
JPMorgan Chase & Co	1.18	0.80	US
Reckitt Benckiser Group	1.13	0.15	Britain

Manager allocations

Manager	Range	Actual*
WCM Investment Mgmt	10-30%	26.16%
Principal Global Investors	10-30%	25.85%
Epoch Investments Partners Inc	10-30%	21.04%
Davis Selected Advisors LP	10-30%	22.87%
Nikko AM Limited (Derivatives)	0-10%	3.65%
Nikko AM Limited (Cash)	0-10%	0.43%

*Figures may not add to 100% due to rounding

Commentary

Global equity markets got nervous in early November, falling almost 2% just before the US Presidential Election on 8 November. Once the news of the Trump victory set in, markets went into "risk-on" mode and launched a significant rally during the remainder of the month, mostly encouraged by Trump's infrastructure spending and tax cut plans, as well as plans to reduce various regulations. By month end, the MSCI All Countries World Index had posted a return of 1.70% (NZD, unhedged), led by large gains in Financials (up 7%), Energy (up 5.6%) and Industrials (up 4%). Among Financials, US Banks (up 19%) were the main driver of performance, with Bank of America (up 30%) the leader of the pack. The performance of European Banks (up 1%) was far more muted, with a wide dispersion in returns. On the downside, bond proxies were once again the worst performers, with Utilities falling 5.4% and Consumer Staples falling 4.5%. Real Estate (down 2.5%) and Telecoms (down 2.3%) also underperformed significantly.

The Fund trailed the benchmark over the month. The underperformance was due to negative sector contributions, while regional allocation and stock selection generally added value. Manager performance was mixed – Davis (up 5.08%) outperformed by a significant margin of 338 bps, largely due to its exposure to outperforming Energy and US banking stocks. However PGI (up 0.18%), Epoch (down 0.30%) and WCM (down 0.71%) all underperformed significantly. The biggest detraction at the sector level came from the underweight exposure to Financials, which was the best performing sector with a gain of 7.1%. While most of the Fund's holdings in the sector outperformed, the underweight exposure detracted value, as well as not holding names like Bank of America, Citigroup and Goldman Sachs which all made substantial gains. Financials have lagged the benchmark for most of the last three years, and have only surged ahead during the last two months. The effect from regional allocation was mostly positive, with the overweight to the US (up 4.6%) and underweight to Japan (down 1.7%) adding significant value. Davis has a significant overweight of about 9% to the US while having no exposure to Japan. Epoch and WCM however caused the most drag on performance. For Epoch, their large overweight to Telecoms, Utilities and Tobacco stocks detracted significant value through holdings such as National Grid (down 10%), Vodafone (down 9%) and Philip Morris (down 7.6%). While some of WCM's holdings such as TD Ameritrade (up 22%) and Tractor Supply (up 21%) performed well, the losers outnumbered the winners in November. Cerner (down 14%), Tripadvisor (down 24%) and HDFC Bank (down 8%) were the main detractors from performance.

Compliance

The Fund complied with its investment mandate during the month.