

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 NZ domiciled 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	1.88%	2.48%	-0.60%
3 months	1.35%	1.44%	-0.09%
6 months	-3.97%	-3.44%	-0.53%
1 year	16.41%	15.64%	0.77%
2 years (pa)	12.98%	12.18%	0.80%
3 years (pa)	15.83%	14.55%	1.27%
5 years (pa)	18.68%	17.93%	0.76%
10 years (pa)	7.96%	6.92%	1.05%

Fund size

NZ\$251 million

Attribution

What helped	What hurt	
Restaurant Brands	OW	Aconex OW
Summerset Holdings	OW	Japara Healthcare OW
Air New Zealand	NH	Ryman Healthcare UW

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

Top 10 holdings

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

Sector allocation (%)

	Fund	Index
Health Care	21.1	16.0
Utilities	18.2	15.6
Industrials	13.3	15.8
Consumer Discretionary	12.3	9.5
Materials	8.8	9.2
Telecommunication Services	7.1	10.3
Energy	7.1	4.2
Consumer Staples	4.3	4.2
Real Estate	3.4	9.6
Information Technology	1.0	2.4
Cash	3.4	0.0
Financials	0.0	3.2

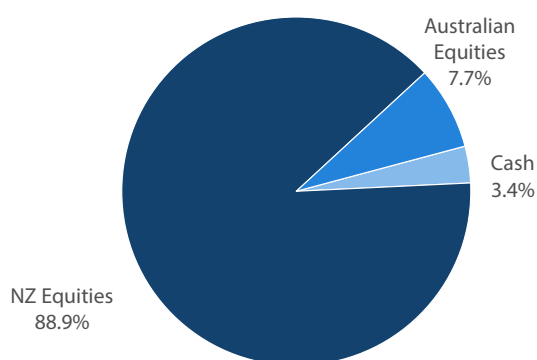
Hedging

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

Equity markets have started the year on a positive note with the MSCI World index up 1.6%. All eyes have been on President Trump following his inauguration on January 20. Early signs are that he will follow through with key pledges with orders signed to withdraw from the Trans Pacific Partnership, immigration bans and plans in motion to commence building a wall between the US and Mexico. The New Zealand equity market, as represented by the S&P/NZX 50 index rose strongly, up 2.5%, as compared to the Australian market which was down 0.8% (S&P/ASX 200 index).

The fund underperformed the index by 0.60% but still made a reasonable positive return for the month of 1.88%.

Restaurant Brands (RBD) performed strongly over the month gaining 9.1% and adding value to the fund. There was no specific news from the company although the local sharebrokers community is becoming quite positive on Restaurant Brands for client portfolios.

Summerset Holdings (SUM) added 5.8% on the back of strong fourth quarter sales numbers. Summerset is currently the largest overweight position in the fund hence this increase in share price benefitted the fund.

Air New Zealand (AIR) fell over the month - down 4.3%. The fund has no investment in AIR and hence added to relative performance.

The underperformance for the fund was primarily the result of SaaS software firm **Aconex** (ACX) which guided to revenue being 8% lower than previous guidance. While revenue guidance still implies circa +10% organic growth rate at the midpoint vs +20% under previous guidance (and +29% in the 2016 result), the cut to earnings guidance was more dramatic. Earnings are expected to be circa 50% weaker than previously forecast which lead to a share price fall of 40%. We remain attracted to the Aconex business model and their blue chip client base and note the stock has recovered somewhat from its lows.

Japara Healthcare (JHC) drifted lower over the month without releasing any market information. **Ryman Healthcare** (RYM) performed strongly in January notwithstanding a lack of news and detracted from performance.

During the month the fund sold its investment in Chorus with limited valuation support evident now. **Mirvac Group** (MGR), the Australia listed property trust was re-introduced into the fund following a period of weak performance relative to the market.

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