

# 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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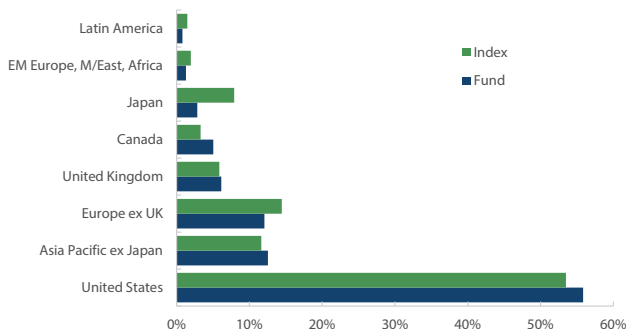
## Performance (NZD gross returns)

	Fund	Benchmark	Excess
1 month	-1.82%	-2.30%	0.48%
3 months	1.81%	3.18%	-1.37%
6 months	0.77%	3.23%	-2.45%
1 year	1.33%	4.06%	-2.73%
2 years pa	5.35%	4.31%	1.04%
3 years pa	10.03%	8.92%	1.11%
5 years pa	12.59%	12.18%	0.41%

## Fund size

NZ\$536.8 million

## Geographical allocation



Emerging markets: 11.4% of Fund

## Sector allocation (% of fund)

Sector	Fund	Benchmark
Consumer Discretionary	16.3	12.2
Consumer Staples	9.5	9.4
Energy	8.0	7.0
Financials	11.4	18.6
Health Care	10.4	11.0
Industrials	8.9	10.6
Information Technology	17.8	15.9
Materials	5.3	5.5
Real Estate	2.2	3.1
Telecommunication Services	3.7	3.6
Utilities	3.1	3.1
Cash*	3.4	0.0

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

## Top 10 holdings (% of fund)

Company	Fund (%)	MSCI (%)	Country
Amazon.com	3.0	0.9	US
Alphabet Class C	2.0	0.6	US
Facebook	1.7	0.8	US
Wells Fargo & Co	1.7	0.7	US
Encana Corp	1.6	0.0	Canada
Taiwan Semiconductor	1.6	0.4	Taiwan
Berkshire Hathaway Class B	1.3	0.5	US
TD Ameritrade	1.2	0.0	US
Naspers	1.1	0.2	SA
Apple	1.1	1.7	US

## Compliance

The Fund complied with its investment mandate during the month.

## Manager allocations

Manager	Range	Actual*
WCM Investment Mgmt	10-30%	26.26%
Principal Global Investors	10-30%	25.99%
Epoch Investments Partners Inc	10-30%	21.22%
Davis Selected Advisors LP	10-30%	22.75%
Nikko AM Limited (Derivatives)	0-10%	2.66%
Nikko AM Limited (Cash)	0-10%	1.12%

## Commentary

The "Trump rally" in global equity markets continued throughout January, sending the S&P 500 to a new record high of 2,300. The Nasdaq Composite of the leading US technology companies also rose above 5,600 for the first time, while the widely watched Dow Jones Industrial Average traded above 20,000 for three days near the end of the month.

While equity returns in local currencies were generally positive, the NZ dollar strengthened to 0.7312 against the US dollar, resulting in negative returns for unhedged investors. The MSCI All Countries World index returned -2.30% (NZD, unhedged). Energy (-7%) was the worst performing sector, while bond proxies (Real Estate, Telecoms and Utilities) also underperformed. The Materials, Information Technology and Consumer Discretionary sectors all outperformed in January. Regional performance was mixed – most of Asia outperformed, while Europe was led by Switzerland and the Nordic region as the UK and Europe struggled. Among emerging markets, Brazil continued its outperformance with a gain of 5% during the month.

In terms of relative performance, the Fund made a good start to 2017 outperforming the benchmark. Three of the four managers benefited from the outperformance of Growth over Value during the month. WCM was the leader of the pack, outperforming by 131 bps. Individual holdings adding the most value for WCM, were Mercadolibre (up 12%), HDFC Bank (up 7%) and Cerner Corp (up 7.5%). Incidentally, these three companies were the worst performers in the fourth quarter. They are all high quality companies though – for example, MercadoLibre is the "Amazon.com of Latin America," running the leading e-commerce platform in the region, while HDFC and Cerner are both leading players in their respective industries and countries. HDFC is growing faster than most of its private banking peers in India, while Cerner (a provider of technology services to the healthcare industry) is positioned to benefit from the Affordable Care Act regulation and the revamping of IT infrastructure.

The value manager, Epoch (-142 bps), had a few successes in January, mainly its Tobacco holdings, and the Canadian telecoms provider Rogers Communications and the US data management firm Iron Mountain Inc., also outperformed. However there were far more detractors - mainly Epoch's exposure to Qualcomm (down 22%), Verizon Communications (down 12%) and Exxon Mobil (down 12%). Being overweight Energy, the worst performing sector, made matters worse for Epoch although the high yielding characteristics of its Energy holdings should add to performance over the longer term.

At the aggregate Fund level, the most value was added by Amazon.com (up 4%), Mercadolibre (mentioned earlier), Encana Corp (up 3%) and Facebook (up 7%).