

# 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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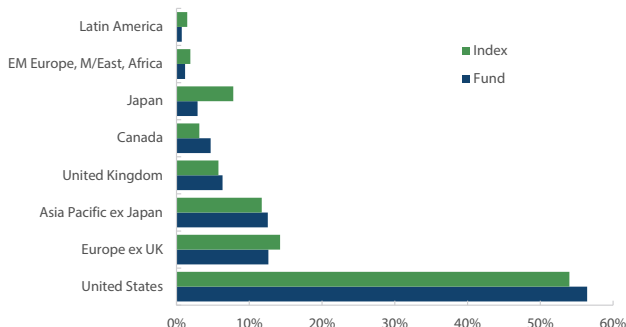
## Performance (NZD gross returns)

	Fund	Benchmark	Excess
1 month	3.50%	4.22%	-0.72%
3 months	4.35%	5.74%	-1.40%
6 months	4.22%	7.86%	-3.65%
1 year	7.44%	11.29%	-3.84%
2 years pa	6.65%	5.83%	0.83%
3 years pa	10.87%	10.04%	0.84%
5 years pa	12.66%	12.49%	0.17%

## Fund size

NZ\$553 million

## Geographical allocation



Emerging markets: 11.4% of Fund

## Sector allocation (% of fund)

Sector	Fund	Benchmark
Consumer Discretionary	16.17	12.05
Consumer Staples	9.96	9.52
Energy	7.44	6.67
Financials	11.31	18.64
Health Care	11.19	11.26
Industrials	8.98	10.65
Information Technology	18.00	16.14
Materials	5.54	5.33
Real Estate	2.04	3.17
Telecommunication Services	3.58	3.43
Utilities	3.15	3.13
Cash*	2.63	0.00

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

## Top 10 holdings (% of fund)

Company	Fund (%)	MSCI (%)	Country
Amazon.com	3.02	0.86	US
Alphabet Class A	2.01	0.64	US
Facebook	1.79	0.79	US
Wells Fargo & Co	1.60	0.70	US
Encana Corp	1.42	0.03	Canada
Taiwan Semiconductor	1.32	0.38	Taiwan
Apple	1.26	1.86	US
Berkshire Hathaway	1.22	0.53	US
Reckitt Benckiser Group	1.16	0.14	Britain
MercadoLibre	1.13	0.02	US

## Compliance

The Fund complied with its investment mandate during the month.

## Manager allocations

Manager	Range	Actual*
WCM Investment Mgmt	10-30%	26.46%
Principal Global Investors	10-30%	26.43%
Epoch Investments Partners Inc	10-30%	21.59%
Davis Selected Advisors LP	10-30%	22.86%
Nikko AM Limited (Derivatives)	0-10%	2.67%
Nikko AM Limited (Cash)	0-10%	-0.02%

## Commentary

Global share **markets** rallied throughout February, driven by ongoing hopes of US tax cuts and increased infrastructure spending, positive earnings results, stronger commodity prices and the US Federal Reserve's (Fed) interest rate hike expectations. Fed Chair Janet Yellen delivered a testimony to Congress and raised the prospect of a March rate hike despite flagging considerable uncertainty under the Trump administration. Yellen commented that "waiting too long to remove accommodation would be unwise" and that delaying rate hikes now could result in the Fed having to raise rates at a faster pace later, "which could disrupt financial markets and push the economy into recession". Overall in February, the MSCI All Countries World Index gained 4.2% (NZD, unhedged). The USA was one of the best performing developed markets, rising more than 5% on the back of a 12-day winning streak by the Dow Jones Industrial Average. Europe ex UK underperformed, driven by the renewed signs of political stress within the region, even as economic conditions continued to improve. Populist parties continued to poll strongly ahead of upcoming elections in the Netherlands and France, while Greece is attempting to agree to terms once again with its creditors. The best performing sectors were Healthcare (up 7%) and Information Technology (up 5.8%), while Materials (up 1%) and Energy (down 0.6%) trailed the benchmark by significant margins.

The **Fund** returned 3.50% in February, but lagged the benchmark's return by 72 basis points (bps). Of the underlying managers, Epoch (4.11%) and PGI (4.08%) performed the best, followed by WCM (3.10%) and Davis (2.81%). The Fund's underperformance was partly due to the overweight exposure to the Consumer Discretionary sector which trailed the benchmark's performance. While individual stock performance in the sector was mixed, an overweight position in Tripadvisor (down 20%) was one of the largest detractors. In the Energy sector, Encana and Apache both declined 11% and had a negative effect on the Fund's return. The other main negatives were the overweight to US retail brokerage firm, TD Ameritrade (down 14%), and the underweight to Apple (up 15%). TD's decline was in response to a change in the product pricing structure of rival Charles Schwab, which said it will cut equity and options trading commission rates by 22%. While pricing cuts put some incremental pressure on TD, there should not be any meaningful fundamental impact given the sticky nature of brokerage market share. Looking at the positive side of performance, 30 of the Fund's 290 holdings (or 11% by weight) gained more than 10% during the month. The Fund has an overweight position in 27 of those holdings and the biggest contributors to performance were MercadoLibre (up 15%), Aetna Inc (up 10%) and VIPshop (up 16%). Underweights to Microsoft (up 0.9%) and ExxonMobil (down 0.8%), which both underperformed, also added relative value.