

Nikko AM Wholesale SRI Equity Fund

Fund manager

Nikko Asset Management New Zealand Limited (Nikko AM NZ).

In New Zealand we actively manage 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

January 2008 – a similar portfolio has been operated by Nikko AM NZ since August 2001

Investment objective

To construct a portfolio of authorised investments that aims to 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

Investment process

Nikko AM NZ is an active style neutral manager with a lower risk approach to investment. Our domestic equity portfolio is constructed and managed with a blend of value and growth companies, with a modest Australian exposure (maximum 20% permitted).

In addition, the Fund has a negative screen to exclude liquor, tobacco, armaments and gambling equities.

Structure and taxation

The Fund vehicle is a NZ domiciled Portfolio Investment Entity (PIE) which is priced daily. Investors select 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 that 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	1.96%	1.66%	0.31%
3 months	3.75%	3.92%	-0.18%
6 months	-2.35%	-3.13%	0.77%
1 year	16.07%	15.03%	1.04%
2 years (pa)	11.36%	10.42%	0.94%
3 years (pa)	14.39%	12.83%	1.56%
5 years (pa)	17.76%	16.62%	1.14%

Fund size

NZ\$16.1 million

Attribution

What helped	What hurt		
Sky Network TV	NH	Metro Perf. Glass	OW
Metlifecare	OW	Japara Healthcare	OW
Contact Energy	OW	Air New Zealand	NH

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

Top 10 holdings

AK International Airport	Infratil limited
Fisher & Paykel Healthcare	Metlifecare
Fletcher Building	Summerset Group Holdings
Contact Energy Limited	Meridian Energy
Spark New Zealand	A2 Milk Ltd
Number of holdings in fund	30

Sector allocation (%)

Sector	Fund	Index
Health Care	23.0	16.7
Utilities	18.8	15.7
Industrials	14.8	16.4
Consumer Discretionary	6.4	9.3
Materials	8.5	8.4
Telecommunication Services	8.0	10.2
Energy	6.9	4.1
Consumer Staples	5.4	4.3
Real Estate	4.4	9.3
Information Technology	1.3	2.3
Cash	2.5	0.0
Financials	0.0	3.3

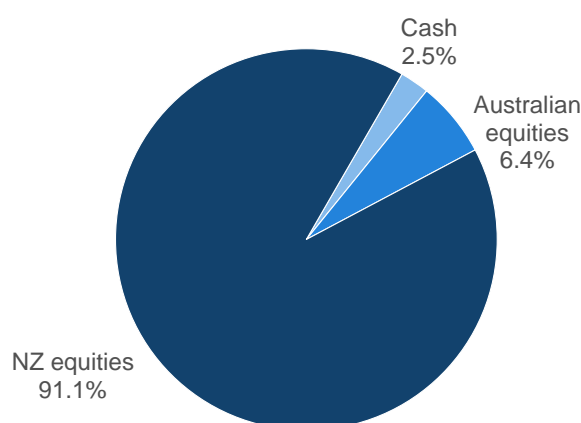
Hedging

Australian listed stocks are unhedged

Compliance

The Fund complied with its investment mandate during the month.

Asset allocation



Commentary

Equity markets continued their positive start for the year with the MSCI World index returning 2.9%. President Trump was again in the forefront as markets anticipated the speech to Congress and definitive policy announcements as opposed to tweets. The New Zealand equity market, as represented by the S&P/NZX 50 index rose strongly up 1.7% but lagged the Australian market which was up 2.2% (S&P/ASX 200 index). Further afield the UK market was up 2.3% (FTSE in GDP) and the US (S&P500) was up 3.7%.

The Fund outperformed the index by 0.31% and posted a total return of 1.96%.

The month the Fund held no Sky Network TV (SKY) for most of the month before starting to introduce a very minor weight (0.25%). The combination of weak earnings result as expected and the Commerce Commission rejecting the proposed merger with Vodafone meant we held no position at month end. This active positioning added excellent value relative to the benchmark. Both **Metlifecare** (MET) and **Summerset Holdings** (SUM) had strong asset revaluations and operating results which drove their share-prices higher adding value to the Fund. **Contact Energy** (CEN) reported profits in line with our expectations with improving operating statistics. The stock reacted positively to these metrics and management comments about debt reduction and hence added value to the Fund.

Metro Performance Glass (MPG) provided a disappointing market update which saw the shares fall ~20% detracting value from the Fund. The major factor leading to their downgrade was 'diseconomies of scale' as they added to productive capacity. We continue to see valuation support and hence have not sold the stock.

Japara Healthcare (JHC) detracted from performance after reporting earnings and guidance which disappointed the market. The earning miss came from their newly acquired Profke facilities however we remain positive about the medium term earnings and investment proposition. Air New Zealand and EBOS Group both nil holdings, delivered solid profit results for the first half year and the market price increased which detracted from relative performance.

Property Link Group (PLG) was introduced to the Fund during the month. Sky Network TV was traded into and out of the Fund during the month.

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