

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%

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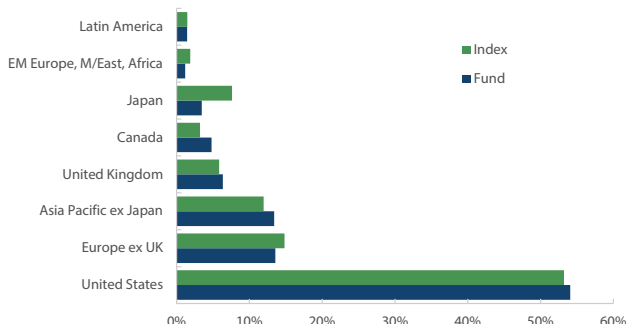
Performance (NZD gross returns)

	Fund	Benchmark	Excess
1 month	0.58%	-0.13%	0.71%
3 months	7.48%	5.75%	1.74%
6 months	5.83%	10.10%	-4.27%
1 year	15.54%	19.12%	-3.57%
2 years pa	7.84%	7.15%	0.70%
3 years pa	11.04%	10.28%	0.77%
5 years pa	13.87%	13.53%	0.34%

Fund size

NZ\$209 million

Geographical allocation



Emerging markets: 13.0% of Fund

Sector allocation (% of fund)

Sector	Fund (%)	Benchmark (%)
Consumer Discretionary	16.9	12.1
Consumer Staples	9.5	9.5
Energy	7.2	6.7
Financials	11.1	18.4
Health Care	11.0	11.1
Industrials	8.8	10.7
Information Technology	18.6	16.4
Materials	6.1	5.3
Real Estate	2.1	3.2
Telecommunication Services	3.7	3.4
Utilities	3.2	3.2
Cash*	1.8	0.0

* includes the sum of the underlying managers' cash allocations

Top 10 holdings (% of fund)

Company	Fund (%)	MSCI (%)	Country
Amazon.com	2.9	0.9	US
Alphabet Class C	1.9	0.6	US
Facebook	1.8	0.8	US
Wells Fargo & Co	1.6	0.7	US
Encana Corp	1.5	0.0	Canada
Apple	1.2	1.9	US
Taiwan Semiconductor	1.2	0.4	Taiwan
Reckitt Benckiser Group	1.1	0.1	UK
Berkshire Hathaway Class B	1.1	0.5	US
MercadoLibre	1.1	0.0	US

Compliance

The Fund complied with its investment mandate during the month.

Manager allocations

Manager	Range	Actual*
WCM Investment Mgmt	10-30%	25.18%
Principal Global Investors	10-30%	25.19%
Epoch Investments Partners Inc	10-30%	21.94%
Davis Selected Advisors LP	10-30%	25.39%
Nikko AM Limited (Derivatives)	0-10%	3.35%
Nikko AM Limited (Cash)	0-10%	-1.05%

Market commentary

The MSCI All Countries World Index returned 6.64% (NZD, unhedged) and 5.75% hedged to NZD, over the March quarter. That brings the total gain of the "Trump rally" to 17% NZD unhedged. The rotation out of Value into Growth accelerated over the quarter, with Growth outperforming Value by about 400 basis points (bps). As expected, the Information Technology (up 12.7%) and Healthcare (up 8.1%) sectors saw the biggest gains, while Energy (down 4%) was the worst performing sector due to crude oil weakness.

Fund commentary

The Fund outperformed its benchmark over the quarter. Most of the value was added by PGI (up 7.90%*) which outperformed by 126 bps. The manager's growth style benefited from strong performance by its overweights to the Information Technology, Consumer Discretionary and Healthcare sectors. Apple (up 23%) and Facebook (up 22%) were the big winners among tech stocks, while Amazon (up 17%) and China Yongda Automobiles (up 84%) added the most value in the Consumer Discretionary sector.

WCM and Davis also both gained more than 7% over the quarter. Adding the most value for WCM's portfolio was its significant exposure to Amazon, Facebook, MercadoLibre (up 34%) and HDFC Bank (up 22%) which all outperformed. For Davis, its overweights to oil companies Encana Corp (down 1.1%) and Apache Corp (down 20%) detracted value, but it had far more winners during the quarter. Adding the most value were New Oriental Education (up 42%), TAL Education (up 50%) and Adient plc (up 23%). New Oriental Education and TAL Education are both Beijing-based and are China's leading tuition companies. Adient plc is the global market share leader in seating and interior components for passenger cars, commercial vehicles, and light trucks. The company recently announced a partnership with Boeing to deliver aircraft seating & interiors. The aircraft interiors market is estimated at about USD 15 billion, compared to the USD 64 billion global auto seating market, however leaders in airline seats have about 18% margins versus only 7% in autos.

Epoch was the only manager that underperformed over the quarter. Although it returned a solid 5.39% over the three month period, it trailed the benchmark by 125 bps. This can be attributed partly to its large underweight to the booming Information Technology sector, and in particular not owning stocks like Apple, Facebook and Samsung which all gained more than 20% over the quarter. While most of Epoch's tech stocks performed well, its largest exposure to the technology sector, Qualcomm, declined 12%. Most of its Energy holdings declined as well, with Exxon Mobil (down 9%) and Occidental Petroleum (down 11%) detracting the most value.

*all return percentages expressed as unhedged in NZD