

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, expenses and taxes.

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	1.28%	0.41%	0.87%
3 months	5.27%	4.59%	0.68%
6 months	-1.28%	-2.23%	0.96%
1 year	8.45%	6.58%	1.87%
2 years (pa)	13.06%	11.07%	1.99%
3 years (pa)	13.85%	11.87%	1.98%
5 years (pa)	16.93%	15.45%	1.48%

Fund size

NZ\$16 million

Attribution

What helped	What hurt
A2 Milk	OW Metro Performance Glass OW
Sky Network TV	NH NZ Refining OW
Summerset Group	OW Aconex OW

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

Top 10 holdings

Contact Energy Limited	Infratil limited
Fisher & Paykel Healthcare	Metlifecare
Spark New Zealand	Summerset Group Holdings
AK International Airport	A2 Milk Ltd
Fletcher Building	Restaurant Brands
Number of holdings in fund	29

Sector allocation (%)

Sector	Fund	Index
Health Care	24.4	16.7
Utilities	17.8	16.1
Industrials	11.8	15.9
Consumer Discretionary	6.4	9.1
Materials	6.6	7.2
Telecommunication Services	7.8	10.3
Energy	6.8	4.0
Consumer Staples	6.7	5.4
Real Estate	5.3	9.3
Information Technology	1.5	2.5
Cash	4.9	0.0
Financials	0.0	3.5

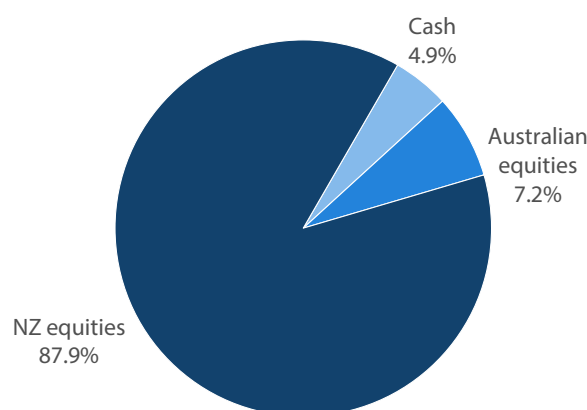
Hedging

Australian listed stocks are unhedged

Compliance

The Fund complied with its investment mandate during the month.

Asset allocation



Commentary

The S&P/NZX 50 Index rose +0.82% in March 2017 with large-cap stocks underperforming mid-cap and small-cap. Off-shore markets - S&P/ASX200 Accumulation, S&P500 and FTSE100 returned +3.3%, +0.1% and +1.1% respectively (in local currencies). For the quarter, the S&P/NZX 50 returned an impressive but in-line with global markets +5.08% as compared to +4.82% for the S&P/ASX200 Accumulation and S&P500 +5.53%. The main driver for the quarter's performance was the continued 'Trump rally' driven by his 'tweeted' policies impacting investors thoughts on re-inflation, reduced regulation, capital spending and the prospect of tax cuts for many including companies. Interest rates around the world rose with the Fed raising rates as expected and markets were able to absorb this along with the UK triggering Article 50.

The fund outperformed the strong NZ market returning 5.27% for added value of 0.68%. For the quarter **A2 Milk** (ATM) returned 40% hence the overweight position added materially to performance. The fund's nil holding in Sky Network TV (SKY) benefitted the fund. SKY fell on the back of a weak earnings result as expected and the Commerce Commission rejecting the proposed merger with Vodafone. The stock has been very volatile over the twelve month and fell 13% over the quarter. Both **Summerset** (SUM) and **Contact Energy** (CEN) provided strong returns, around ~11%, based on earnings updates which added to performance over the quarter.

Metro Performance Glass (MPG) and **Aconex** (ACX) both surprised the market with negative earnings updates. Metro fell ~31% and Aconex fell ~18% detracting 0.36% and 0.21% respectively.

NZ Refining (NZR) was weak post a partial placement of BP stake (selling down from 20.2% to 10.1%) and hence detracted from relative performance.

Propertylink Group (PLG) and **Mirvac Group** (MGR) were added to the fund and provided good result updates during the quarter. Mirvac Group also narrowed its earnings guidance for the full year to the top of its previously provided range.

Chorus (CNU) was sold out of the fund following a strong period of performance and reaching our price target. A number of stocks were reweighted in the fund with the general theme of reducing overweight positions following price movements and increasing cash holdings.

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