

Nikko AM Wholesale Core Equity 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, 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

October 2007 – a similar portfolio has been operated by Nikko AM NZ since March 1992.

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 with Imputation Credits

Investment process

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

Structure and taxation

The Fund vehicle is a NZ domiciled Portfolio Investment Entity (PIE) which is priced daily. Investors elect 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.

Chapman Tripp – Fund Manager of the Year – Equities



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Performance (NZD gross returns)

	Fund	Benchmark	Excess
1 month	0.12%	0.59%	-0.48%
3 months	4.46%	3.98%	0.48%
6 months	9.05%	8.20%	0.86%
1 year	6.85%	6.69%	0.15%
2 years (pa)	15.40%	14.11%	1.29%
3 years (pa)	15.97%	14.19%	1.78%
5 years (pa)	19.09%	17.79%	1.30%
10 years (pa)	8.30%	7.07%	1.24%

Fund size

NZ\$270 million

Attribution

What helped	What hurt
NZ Refining	OW Metlifecare OW
Restaurant Brands	OW Summerset Group OW
Aristocrat Leisure	OW Air New Zealand NH

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

Top 10 holdings

Fisher & Paykel Healthcare	Infratil Limited
Contact Energy	Metlifecare Ltd
Auck Intl. Airport	The A2 Milk Coy
Spark New Zealand	Summerset Group Holdings
Fletcher Building	Sky City Entertainment
Number of holdings in fund	32

Sector allocation (%)

	Fund	Index
Health Care	23.5	16.8
Utilities	16.4	16.1
Consumer Discretionary	11.7	9
Industrials	11.4	16.1
Telecommunication Services	6.8	10.6
Materials	6.6	6.4
Consumer Staples	6.4	5.4
Energy	6.0	4.2
Information Technology	4.3	3.2
Real Estate	3.8	9.1
Cash	3.1	0
Financials	0.0	3.1

Hedging

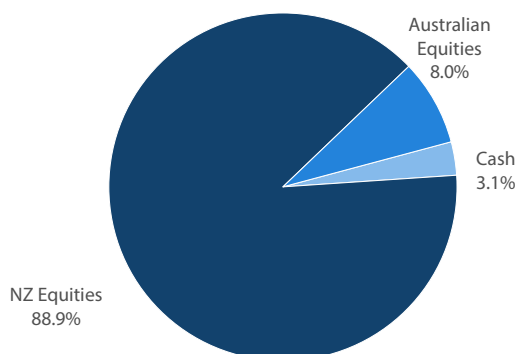
Australian listed stocks are unhedged at the date of this Fact Sheet.

Compliance

The Fund complied with its investment mandate during the month.

Asset allocation

Cash includes call cash, income due and settlements



Commentary

Global markets continued to move higher with the MSCI World index up 1.7% and US markets reaching all-time highs with the S&P 500 index up 1.2%. The Australian market as represented by the S&P/ASX 200 index fell 2.75% with the financial sector having a large impact and retail stocks being affected by Amazons impending entry. The broader NZ equity market was up 0.59% as measured by the S&P/NZX 50 index and 8.3% for the year-to-date.

The fund underperformed during May generating a gross return of 0.12% versus the benchmark of 0.59%.

Positive contributors to the performance for May included **NZ Refining** (NZR) +8.1% over the month, **Restaurant Brands** (RBD) +6.6% and **Aristocrat** (ALL) +7.5%. NZR released positive operating stats for the March / April. ALL released its first half results with overall sales +22% and earnings +49% after strong North American growth aided. Management reiterated full-year guidance was of 20-30% growth in net earnings with further investment in R&D.

Nil positions in ANZ Bank and Westpac bank contributed positively to relative performance as they fell 12.7% and 14.6% respectively. The shares fell in response to levies on the banks announced in the Australian Budget which saw the S&P/ASX 200 Financials sector down 9.2%.

The fund's overweight in **Metlifecare** (MET) detracted from performance as major shareholder, **Infratil** (IFT), sold down their stake of 19.9% to nil at an 8% discount to market. This saw the stock down 5.5% for the month on top of a similar move the month prior. The sentiment against residential property prices also appears to have weighed against **Summerset** (SUM) with the stock falling ~6% and detracting from performance.

Air NZ detracted from performance as the stock rallied 12.5% and the fund continued to hold no stock. Air NZ has been buoyed by strong domestic performance and competitors removing capacity from the NZ market. **Comvita** (CVT) detracted from performance despite our modest investment as the stock fell ~19% on the news of the Myrtle Rust scare.

Only minor changes were made during the month with a small residual holding in **Airwork** (AWK) sold out. Cash holdings were reduced as the fund moved to invest further in **Xero** (XRO) - now overweight versus the benchmark weight.

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