

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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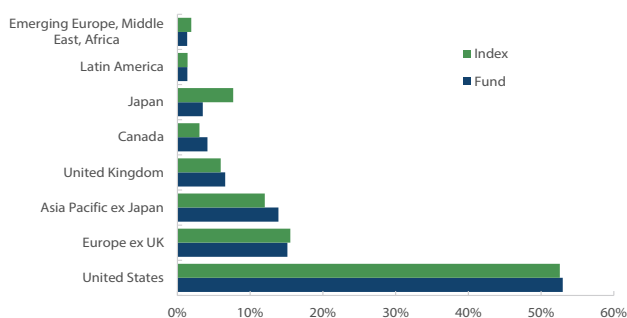
Performance (NZD gross returns)

| | Fund | Benchmark | Excess |
|------------|--------|-----------|--------|
| 1 month | 4.04% | 2.75% | 1.29% |
| 3 months | 5.45% | 3.24% | 2.21% |
| 6 months | 13.53% | 11.71% | 1.82% |
| 1 year | 17.40% | 20.00% | -2.60% |
| 2 years pa | 8.60% | 7.40% | 1.21% |
| 3 years pa | 11.67% | 10.23% | 1.43% |
| 5 years pa | 16.49% | 16.26% | 0.23% |

Fund size

NZ\$203 million

Geographical allocation



Emerging markets: 13.7% of Fund

Sector allocation (% of fund)

| Sector | Fund (%) | Benchmark (%) |
|----------------------------|----------|---------------|
| Information Technology | 19.1 | 17.1 |
| Consumer Discretionary | 17.8 | 12.3 |
| Health Care | 11.6 | 11.2 |
| Financials | 11.2 | 17.9 |
| Industrials | 9.7 | 10.8 |
| Consumer Staples | 8.6 | 9.7 |
| Energy | 6.4 | 6.2 |
| Materials | 5.2 | 5.2 |
| Telecommunication Services | 3.6 | 3.4 |
| Utilities | 3.4 | 3.2 |
| Real Estate | 2.3 | 3.1 |
| Cash* | 1.2 | 0 |

* includes the sum of the underlying managers' cash allocations

Top 10 holdings (% of fund)

| Company | Fund (%) | MSCI (%) | Country |
|------------------------|----------|----------|------------|
| Amazon.com | 3.1 | 1.0 | US |
| Alphabet, Class C | 2.2 | 0.7 | US |
| Facebook | 1.8 | 0.9 | US |
| Wells Fargo | 1.5 | 0.6 | US |
| Taiwan Semiconductor | 1.3 | 0.0 | Taiwan |
| Apple | 1.2 | 2.0 | US |
| Naspers | 1.2 | 0.2 | Sth Africa |
| Encana Corp | 1.2 | 0.0 | Canada |
| New Oriental Education | 1.1 | 0.0 | China |
| Aetna | 1.1 | 0.1 | US |

Compliance

The Fund complied with its investment mandate during the month.

Manager allocations

| Manager | Range | Actual* |
|--------------------------------|--------|---------|
| WCM Investment Mgmt | 10-30% | 25.97% |
| Principal Global Investors | 10-30% | 25.20% |
| Epoch Investments Partners Inc | 10-30% | 21.64% |
| Davis Selected Advisors LP | 10-30% | 25.36% |
| Nikko AM Limited (Derivatives) | 0-10% | 3.40% |
| Nikko AM Limited (Cash) | 0-10% | -1.57% |

Market commentary

Global equity markets extended their gains in May as the Technology sector continued to hit record highs. The Nasdaq Index reached 6200 as shares like Apple, Amazon, Alibaba, Facebook, Google and Microsoft all rose to their highest levels ever. While the MSCI All Countries World Index (ACWI) returned 2.28% (USD) in May, the result was for the 2.75% on a 139% hedged to NZD basis. Utilities (up 2.0%), Technology (up 1.4%) and Consumer Staples (up 1.1%) were the best performing sectors, while Financials (down 3.2%) struggled. Energy (down 4.8%) was the worst performing sector as the oil price continued to fall during May despite production cuts being announced by OPEC. Across regions, European equity markets were among the best performing, as Emmanuel Macron was elected as French President, providing some relief to investors that certain political risks are moderating. Emerging market performance was mixed with Brazil declining more than 8%, while China and South Korea outperformed.

Fund commentary

WCM (up 1.66%) and Epoch (up 0.14%) contributed the most to performance, while PGI (down 0.99%) and Davis (down 1.08%) performed marginally better than the benchmark return of -1.13%. Sector allocation added value largely due to the overweight to Information Technology and the underweight to Financials. Strong stock selection was however the main driver of performance. The main contributors came from the Consumer Discretionary and Information Technology sectors. Helping the most were overweights to Amazon (up 4%), Mercadolibre (up 16%), New Oriental (up 7%) and JD.com (up 10%). Among the Fund's Consumer Staples holdings, household products distributor Reckitt-Benckiser (up 7.5%) and packaged food manufacturer Nestle (up 7%) performed the best. Meanwhile Wells Fargo (down 7.5%) was the biggest detractor among Financials, while HDFC Bank (up 6.7%) managed to buck the trend among its peers.

Online consumer service ratings company Angie's List was the highlight of the month, surging 98% to its highest level in three years, after the company agreed to be acquired by IAC/InterActiveCorp (IAC) in a deal that valued Angie's List at about USD 505 million. The price jumped well above the bid of USD 8.50 a share and closed the month at USD 12.04, representing a 41% premium to IAC's offer, and close to Angie's 2011 initial-public-offering price of USD 13. Its latest plan to acquire Angie's List and merge it with its own HomeAdvisor will make it the leader in matching homeowners with home services. IAC derives about 75% of its revenue from the USA.

*all return percentages expressed as unhedged in NZD unless otherwise stated.