

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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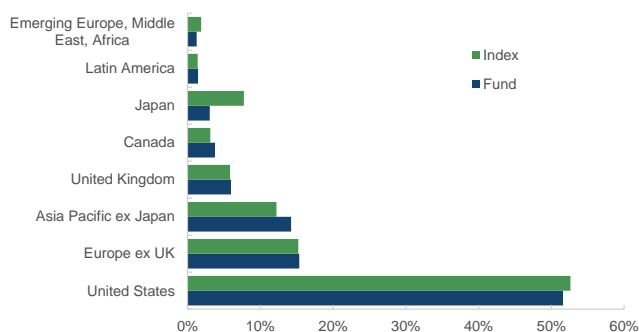
Performance (NZD gross returns)

	Fund	Benchmark	Excess
1 month	1.19%	1.42%	-0.23%
3 months	6.09%	4.84%	1.25%
6 months	14.03%	10.87%	3.16%
1 year	20.16%	22.77%	-2.62%
2 years pa	10.64%	9.74%	0.90%
3 years pa	11.56%	10.13%	1.42%
5 years pa	15.89%	15.59%	0.30%

Fund size

NZ\$197 million

Geographical allocation



Emerging markets: 13.5% of Fund

Sector allocation (% of fund)

Sector	Fund (%)	Benchmark (%)
Information Technology	17.6	16.9
Consumer Discretionary	17.3	12.1
Financials	11.7	18.6
Health Care	11.2	11.4
Industrials	10.4	10.9
Consumer Staples	8.3	9.4
Energy	5.8	6.1
Materials	5.5	5.2
Cash*	3.3	0.0
Telecommunication Services	3.3	3.2
Utilities	3.3	3.1
Real Estate	2.3	3.1

* 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	2.1	0.7	US
Facebook	1.8	0.9	US
Wells Fargo	1.7	0.6	US
Taiwan Semiconductor	1.3	0.0	Taiwan
Reckitt Benckiser Group	1.1	0.2	UK
Apple	1.1	1.8	US
Naspers	1.1	0.2	South Africa
New Oriental Education	1.1	0.0	China
Aetna	1.0	0.1	US

Compliance

The Fund complied with its investment mandate during the month.

Manager allocations

Manager	Range	Actual*
Davis Advisors	10-30%	25.78%
Epoch	10-30%	21.49%
Principal Global Investors	10-30%	25.60%
WCM	10-30%	26.77%
Nikko AM Derivatives	0-20%	0.00%
Nikko AM Cash	0-10%	0.36%

Market commentary

The MSCI All Countries World Index returned 4.84% (NZD, hedged) over the June quarter. Europe ex-UK and Asia ex-Japan were the best performing regions, while the sectors were led by strong gains in Healthcare, Information Technology and Industrials.

Investors have become increasingly circumspect about the trajectory of growth for the US and the global economy. The Trump legislative agenda has been delayed, economic data has become more mixed and expectations for interest rate hikes have become more muted.

With dissipating faith that a broad cyclical upswing will engender revenue growth and positive operating leverage for most businesses, the focus has returned again to leaders of innovation, market share gainers and franchises that can deliver sustainable growth irrespective of the economic cycle.

Fund commentary

The Fund had a very strong June quarter, outperforming the benchmark by 125 basis points (bps) on a hedged basis. Of the underlying managers, WCM made the largest contribution to the Fund's excess return. Epoch trailed the benchmark while WCM benefitted from double digit returns in names such as Cooper Companies, HDFC Bank, Techtronic Industries and Tencent Holdings. Epoch's underperformance was largely due to its significant overweight to Telecommunications and Utilities which struggled over the quarter. Among Epoch's individual holdings, Imperial Brands, Verizon Communications and AT&T all declined 11%. At the aggregate Fund level, holdings with a notable positive impact on returns over the quarter included overweights to Angie's List (up 115%), Safran (up 18%), JD.com (up 21%) and Cooper Companies (up 15%). ANGI soared in early May after the company agreed to be acquired by IAC/InterActiveCorp (IAC) in a deal that valued ANGI at about USD 505 million. IAC said that it planned to merge its own HomeAdvisor unit with ANGI. Among the Fund's Healthcare holdings, Cooper Companies climbed to a new record high after stronger than expected results at the start of May, with profit margins expanding at its core contact lens business much more quickly than investors had been expecting. The US market has started to underperform other markets, with US dollar weakness being a contributing factor. This has been most notable against the Euro, where the European Central Bank (ECB) now appears to be following in the footsteps of the Fed faster than many expected, with policy tightening as a result of the tapering of quantitative easing (QE) and potential rate hikes in due course supporting the currency.

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