

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	1.68%	1.10%	0.58%
3 months	4.44%	4.44%	-0.01%
6 months	11.63%	9.81%	1.82%
1 year	7.20%	6.03%	1.17%
2 years (pa)	16.24%	15.40%	0.84%
3 years (pa)	17.50%	15.69%	1.81%
5 years (pa)	19.65%	18.28%	1.37%
10 years (pa)	8.96%	7.68%	1.28%

Fund size

NZ\$265 million

Attribution

What helped		What hurt	
The A2 Milk Coy	OW	Aristocrat Leisure	OW
Metlifecare	OW	Ryman Healthcare	UW
EROAD	OW	Pacific Edge	OW

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

Top 10 holdings

Contact Energy Limited	Infratil Limited
The A2 Milk Company Limited	Metlifecare Ltd
Fisher & Paykel Healthcare	Fletcher Building Ltd
Auckland Intl Airport Ltd	Summerset Group
Spark New Zealand Limited	Mainfreight Limited
Number of holdings in fund	31

Sector allocation (%)

	Fund	Index
Health Care	21.48	16.7
Utilities	18.16	16.1
Industrials	11.96	16.1
Consumer Discretionary	10.38	8.5
Consumer Staples	7.58	5.9
Telecommunication Services	6.87	10.2
Materials	4.99	6.5
Information Technology	4.98	3.3
Energy	4.44	4.1
Real Estate	3.89	9.0
Cash	3.09	0.0
Financials	2.18	3.7

Hedging

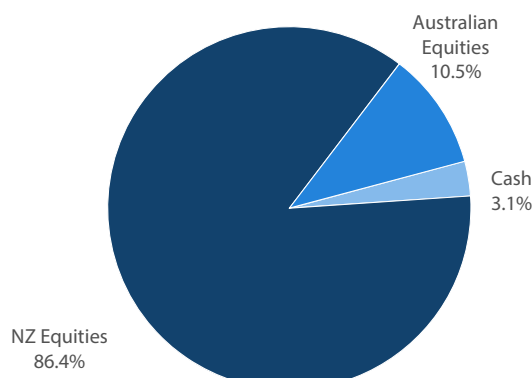
Australian listed stocks are unhedged at the date of this Fact Sheet.

Compliance

The Fund complied with its investment mandate during the month.

Asset allocation

Cash includes call cash, income due and settlements



Commentary

Global equity markets continued their strong run with the MSCI World index up 1.8% supported by the S&P 500 index which was up 1.9%. The US market was aided by dovish comments from the Federal Reserve Governor which also led to a depreciation of the USD vs the NZD and AUD. The NZ market, as measured by the S&P/NZX 50 index, was up 1.1% while the Australian market, based on the S&P/ASX 200 index, was flat for the month.

The fund performed strongly for the month of July generating a return of 1.68% versus the benchmark of 1.10%.

The A2 Milk Company (ATM) contributed positively with the stock returning ~10% for the month. There were no company announcements but there were a number of broker reports which upgraded earnings expectation for the current and future years.

Strong performance came from **EROAD (ERD)** +32.5% and **Metro Performance Glass (MPG)** +16.1% during July. EROAD performed solidly on improved quarterly sales numbers as did Metro Performance Glass following their inaugural investor day.

Metlifecare (MET) and **Infratil (IFT)** performed well over the month, returning +4.1% and 3.9% respectively.

Aristocrat Leisure (ALL) fell back over the month without any announcements but was undoubtedly impacted by the strong AUD/USD cross which impacts the translation of earnings. The Australian dollar rallied 4.1% versus the US dollar during July.

Ryman Healthcare (RYM) detracted from performance as the stock rallied hurting our underweight position. **Pacific Edge (PEB)**, Mercury NZ (nil holding) and **Fletcher Building (FBU)** all modestly detracted from relative performance.

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.

ANZ Bank (ANZ) and **PushPay Holdings (PPH)** were both added to the portfolio during the month. The Fund's positions in **Sky City Entertainment (SKC)**, **Trade Me Group (TME)** and **Z Energy (ZEL)** were all reduced during the month.

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