

# Nikko AM Wholesale SRI 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

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	4.24%	1.60%	2.64%
3 months	9.10%	5.37%	3.73%
6 months	12.68%	9.06%	3.62%
1 year	10.03%	5.65%	4.37%
2 years (pa)	19.09%	17.56%	1.53%
3 years (pa)	16.70%	14.38%	2.32%
5 years (pa)	18.38%	16.35%	2.03%

## Fund size

NZ\$19.4 million

## Attribution

What helped	What hurt
A2 Milk Coy	OW Metro Performance Glass OW
Metlifecare	OW Japara Healthcare OW
Trade Me	NH Air New Zealand UW

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

## Top 10 holdings

The A2 Milk Company	Spark NZ Ltd
Contact Energy	Auckland Intl Airport
Metlifecare Ltd	Summerset Group Holdings
Infratil limited	Restaurant Brands
Fisher & Paykel Healthcare	Fletcher Building Limited
<b>Number of holdings in fund</b>	<b>31</b>

## Sector allocation (%)

Sector	Fund	Index
Health Care	22.7	17.2
Utilities	18.9	16.1
Industrials	10.2	15.7
Consumer Staples	9.1	6.8
Telecommunication Services	5.7	10.2
Consumer Discretionary	5.7	7.6
Real Estate	5.5	8.9
Cash	5.0	0.0
Financials	4.9	3.7
Information Technology	4.7	3.1
Materials	3.9	6.6
Energy	3.7	4.1

## Hedging

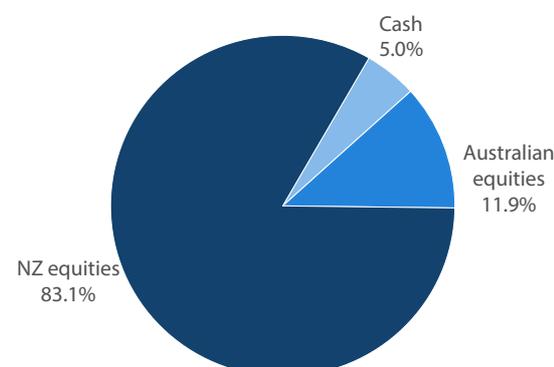
Australian listed stocks are unhedged

## Compliance

The Fund complied with its investment mandate during the month.

## Asset allocation

Cash includes call cash, income due and settlements



## Commentary

The fund performed very strongly for the month of August generating a return of 4.24% versus the benchmark of 1.60%.

August saw a number of events moving markets in different ways with reporting season stock specific, geo-political events such as a North Korean missile launch resulting in risk off and Hurricane Harvey more localised in the US. Closer to home as the election looms, the Labour party has had a dramatic turnaround while the Greens appear to have imploded. The S&P/NZX 50 index was up 1.7% beating the S&P/ASX 200 index which was up 0.7% for the month and all other developed markets.

**The A2 Milk Company (ATM)** rallied strongly over the month on the expectation and ultimately the delivery of exceptionally earnings numbers for the year. The stock rose 25.8% in August to the benefit of our substantial overweight position.

**Metlifecare (MET)** rallied +9.1% on very strong earnings growth (+24%) and 21% uplift in its NTA per share. **Contact Energy (CEN)** enjoyed a strong rally on the back of the full year result announcement and dividend guidance. Nil holdings in Trade Me, Sky Network TV and Chorus all contributed relative to performance also. These stocks fell -15%, -14% and -10% respectively.

On the negative side **Metro Performance Glass (MPG)** surprised the market with a very weak update commentary at their AGM presentation resulting in a 28% fall over the month. This is a very disappointing outcome from a company under pressure. **Japara Healthcare (JHC)** fell 13% following the release of weak full year performance numbers and in the face of very strong sectorial demand for aged care places in Australia. Our nil position in Air New Zealand detracted from relative performance as the stock continued to rally, adding 6.6% in the month of August alone. Fund activity was muted over the month with a small residual holding in Trade Me sold early in the month, prior to their earnings announcement. The fund also reduced its holding in **Aconex (ACX)** following a poor result (guidance update) and reduced the holding of **A2 Milk (A2M)** following the very strong price appreciation. **Fisher & Paykel Healthcare (FPH)** was reduced as the price rallied in excess on our valuation. The proceeds were applied to increasing investment in MET, **Australia and New Zealand Banking Group (ANZ)** and **Westpac (WBC)**.

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