

NIKKO AM CONCENTRATED EQUITY FUND

Monthly Fact Sheet

30 November 2016



Investment objective

The objective of the Fund is to construct a portfolio of permitted investments that outperform the Fund's benchmark return over a rolling three year period before fees, expenses and taxes.

Benchmark

RBNZ Official Cash Rate plus 5% per annum

Fund description

The Fund aims to provide investors with a concentrated exposure to New Zealand and Australian equity markets from an actively managed investment portfolio.

The Fund gains its investment exposure by investing into the Nikko AM Wholesale Concentrated Equity Fund which is managed by the Nikko AM NZ Equity team.

Distributions

Semi-annual. Last business days of March and September.

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%. Currency hedging contracts are held in the Nikko AM Wholesale Concentrated Equity Fund.

Management fees and other charges

A management fee of 1.00% per annum calculated as a percentage of the net asset value of the Fund will be deducted from the Fund. This fee is calculated daily and is payable to Nikko AM.

Nikko AM may also recover expenses (including the Trustee fee) from the Fund up to a maximum of 0.25% per annum of the Fund's net asset value. As at the time of publication these expenses are estimated to be 0.25% per annum.

Performance fee

We charge a performance fee of 10% of gains above the hurdle rate. The 'hurdle rate' is the minimum return the Fund must achieve before being able to charge a performance fee. The hurdle rate for the Fund is 5% above the Reserve Bank of New Zealand Official Cash Rate over a 12 month financial period after deducting our management fee and expenses. Performance-based fees are payable only if the Fund's performance exceeds the high water mark. The high water mark for the Fund is equal to the performance level of the Fund at the end of the last financial period when a performance fee was charged. This means if the Fund loses value over one or more financial periods, Nikko AM NZ must achieve investment returns above the high water mark for the Fund before receiving another performance-based fee. The high water mark cannot be reset unless the Fund's performance exceeds that mark. The performance fee for each financial period is accrued daily in the unit price and paid at the end of the financial period. A financial period for the Fund is 12 months ending 30 September in each year. The performance fee does not have a maximum limit.

Buy/sell spread

0.35% / 0.35%

Strategic asset allocation

Asset class	Range
Australasian equities, listed property, cash and cash equivalents, NZ fixed income and international fixed income via the Nikko AM Wholesale Concentrated Equity Fund	95% – 100%
Cash on call for investor transactions	0% – 5%

Restrictions

Nikko AM Wholesale Concentrated Equity Fund:

- Maximum of 20% of the portfolio value to any single security.
- Short selling up to a maximum of 10% of the gross asset value prior to implementation. Any short positions must be covered by cash.
- Purchasing of securities on margin is not permitted.

Full details of the permitted investments and restrictions are outlined in the SIPO.

Performance

(NZD returns; before tax, after fees and expenses)

1 month	3 months	6 months	1 year
-0.36%	-5.03%	-6.01%	5.75%
2 years (pa)	3 years (pa)	5 years (pa)	Inception (pa)*
12.21%	13.21%	14.44%	6.54%

* August 2006

Contributors to performance – month

What helped	What hurt
a2 Milk Co Ltd	Aconex LTd
NZ Refining Co	Infratil Ltd
Mainfreight Ltd	Aristocrat Leisure

Asset allocation (% of fund)

New Zealand equities	64.5%
Australian equities	25.4%
Cash	10.1%

Top 5 holdings

Security	Sector
Contact Energy	Utilities
Metlife Care	Healthcare
Infratil Limited	Utilities
Aristocrat Leisure	Consumer discretionary
Property Link Group	Real estate
Number of holdings	16

Commentary

Equities rebounded and bonds sold off hard on the 'Trump Reflation' trade. Equity markets initially sold off aggressively as news of marginal states were won by Trump but then rallied hard as Trump gave a 'measured' victory speech. Equities continued to rally and bonds sold off for the rest of the month on bullish expectations regarding Trump's program of fiscal stimulus, corporate tax cuts and lessened regulation.

Global investors rotated into cyclical and banking stocks while emerging markets underperformed. The US dollar surged as US economic data during the month was strong. In November the NZX50 fell 0.84% led down by some disappointing company results including Orion Healthcare (OHE -44%) and Tower Insurance (TWR -23%) - neither of which were owned by the Fund. Large caps considerably underperformed the Mid-caps with strength in Consumer Staples, Telecoms and IT. Elsewhere Energy, Health Care and Financial stocks underperformed the benchmark. The economic backdrop has seen solid GDP growth, in the order of 3.5-4.0%, with a modest negative impact from the recent Kaikoura earthquakes. Australian equities rose 3% as measured by the S&P/ASX 200 Index, led by banks and the iron ore price rallying to a 25-month high before falling heavily at the end of the month but nevertheless finished the month 15% higher. Gold fell.

The **a2 Milk Company** (ATM) announced that for the first four months of financial year 2017 revenue had grown by 96% year-on-year and EBITDA had grown 473%, ahead of consensus expectations. ATM shares rose 7.1% on the day of the announcement and 32.5% for the month of November aiding Fund performance. Another strong performer was the **NZ Refining Company** (NZR) which rose 15.2% over the month as refining margins rose and the NZ dollar fell assisting the earnings outlook for the company. **Pacific Edge** (PEB) rose 10.9% for the month. **Fisher and Paykel Healthcare** (FPH) share price continued to slide over the month despite the +26% first-half profit resulting from widened margins. The Portfolio Manager's recent re-introduction of FPH to the portfolio was after significant weakness in the price triggering re-entry. The stock fell because of patent litigation beginning against key competitor Resmed. The stock has fallen 5.4% since average entry price at month end but was 15% off the highs where the Portfolio Manager had sold the name two months back. **Aconex** (ACX) continued to hurt fund performance with the stock down 19.4% for the month.

No new stocks were added or existing names removed from the Fund over the month. The NZD fell 1% against the USD but rose 1.9% against the AUD over the month of November which hurt fund performance.

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

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