

# NIKKO AM CONCENTRATED EQUITY FUND

## Monthly Fact Sheet

## 31 December 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
1.43%	-3.88%	-1.82%	5.68%

2 years (pa)	3 years (pa)	5 years (pa)	Inception (pa)*
11.62%	13.30%	14.89%	6.63%

\* August 2006

## Contributors to performance – quarter

What helped	What hurt
A2 Milk	Aconex
Property Link	Infratil Ltd
Mainfreight	MetlifeCare

## Asset allocation (% of fund)

New Zealand equities	63.3%
Australian equities	26.5%
Cash	10.2%

## Top 5 holdings

Security	Sector
Contact Energy	Utilities
Infratil Limited	Utilities
Metlife Care	Healthcare
Aristocrat Leisure	Consumer discretionary
Property Link Group	Real estate
<b>Number of holdings</b>	<b>17</b>

## Commentary

The final quarter of 2016 continued the themes of surprise and volatility prevalent for much of the year. The US election victory by Donald Trump ‘surprised’ and this victory plus the US Federal Reserve raising the Federal Funds Target Rate contributed to market volatility. Bond yields moved higher over the quarter with the US 10-year yield up 85 basis points and the New Zealand 10-year up close to 110 basis points.

The resignation of John Key as Prime Minister brought forward the uncertainty around the New Zealand election next year and policies that will be promoted that might impact on the domestic market.

The bond market sell off had a significant impact on the high yielding New Zealand equity market which ended the quarter down 6.4% as measured by the S&P/NZX 50 index. The Australian market significantly outperformed the New Zealand market with the S&P/ASX 200 index up 5.2%. The US and UK markets were also strong, up 3.4% and 3.5% respectively.

The Fund performance for the quarter was weak in an overall sense returning -3.38% but better than the broad equity market which fell 6.4%. The Fund benefitted from a complete exit of **A2 Milk** (ATM) at a high price during the quarter with a gain of 22% to the point of exit. **Property Link Group** (PLG) contributed positively, up 10%, supported by their half year distribution. **Mainfreight** (MFT) performed very strongly, up 17.8% supported by the company’s first investor day and a positive first half result and outlook. **Pacific Edge** (PEB) and **NZ Refining** (NZR) also contributed strongly.

Fund performance was hurt by investments in **Aconex** (ACX), **Infratil** (IFT), **Metlifecare** (MET) and **Contact Energy** (CEN). Aconex fell 24% for the quarter despite not making any significant announcements but sentiment is yet to find a base for tech companies following Trump’s election. Infratil performed poorly over the quarter down 13.1% and detracting value. The performance of portfolio companies, Trustpower and Perth Energy were the main detractors within the half year result released during the quarter.

During the quarter **A2 Milk** (ATM) was sold before being reintroduced into the Fund late in the December, hence taking advantage of high volatility. Fonterra Shareholders Fund was also sold out of the Fund during quarter. **Mainfreight** (MFT) was sold out of the Fund following a period of very strong price performance. **Fisher & Paykel Healthcare** (FPH) was reintroduced into the Fund following a period of weak price performance on the back of pending legal action with one of their competitors.

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

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