

NIKKO AM CONCENTRATED EQUITY FUND

Monthly Fact Sheet

28 February 2017



Investment objective

The objective of the Fund is to construct a portfolio of permitted investments that outperforms 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
5.11%	5.90%	0.57%	13.42%
2 years (pa)	3 years (pa)	5 years (pa)	Inception (pa)*
9.78%	14.16%	15.34%	6.95%

* August 2006

Contributors to performance – month

What helped	What hurt
Aristocrat Leisure	Japara Healthcare
Metlifecare	Restaurant Brands
EROAD Ltd	Tilt Renewables

Asset allocation (% of fund)

New Zealand equities	66.4%
Australian equities	25.6%
Cash	8.0%

Top 5 holdings

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

Commentary

Equity markets continued their positive start for the year with the MSCI World index returning 2.9%. President Trump was again in the forefront as markets anticipated the speech to Congress and definitive policy announcements as opposed to tweets. The New Zealand equity market, as represented by the S&P/NZX 50 index rose strongly up 1.7% but lagging the Australian market which was up 2.2% (S&P/ASX 200 index). Further afield the UK market was up 2.3% and the US (S&P500) was up 3.7%.

The Fund performed strongly during February returning 5.11% well in excess of all relevant indices. The large position in **Aristocrat Leisure** (ALL) added value as the stock rallied after the company confirmed their guidance range, as we expected at the AGM. The stock rallied 8.6% over the month. The new CEO Trevor Croker confirmed normalised profit growth of 20% to 30% for the current year allaying fears about the company and why Jamie Odell resigned.

Metlifecare (MET) delivered strong asset revaluations and reported profits up 31% for the half year. The stock increased ~11% on the announcement and contributed very positively to performance as the stock represented the largest position in the Fund. The stock continued to rally in line with the net asset backing of the investments. **Contact Energy** (CEN) reported profits in line with our expectations and pleasingly with improving operating statistics. The stock reacted positively to these metrics and management comments about debt reduction that may lead to higher dividends later this year and hence contributed positively to the Fund's performance. The best performing stock in the Fund over the month was **EROAD** (ERD) which rose 19.4% as it released its electronic logging device product in the US market. **Japara Healthcare** (JHC) detracted from performance after reporting earnings and guidance which disappointed the market. The earning miss came from their newly acquired Profke facilities however we remain positive about the medium term earnings and investment proposition.

One new stock was added to the Fund after weakness being NZ's largest building and materials company **Fletcher Building** (FBU). The stock had sold off recent highs of close to \$11 to \$9.50 on a poor result where it signalled losses on one building contract before a moderate position was taken on valuation grounds along with earnings support with the considerable work in progress and a solid demand for housing. During the month the Fund's position in Australian listed property company **Mirvac Group** (MGR) was sold following a near 8% return in two weeks. Over the month the NZD fell against the AUD by 2.7% aiding the funds unhedged investments in Australia.

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

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