

NIKKO AM CONCENTRATED EQUITY FUND

Monthly Fact Sheet

30 April 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
0.98%	10.54%	10.97%	10.05%
2 years (pa)	3 years (pa)	5 years (pa)	Inception (pa)*
13.31%	14.81%	15.67%	7.35%

* August 2006

Contributors to performance (absolute)

What helped	What hurt
Aristocrat Leisure	Metlifecare
A2 Milk	EROAD Ltd
Aconex	Comvita Ltd

Asset allocation (% of fund)

New Zealand equities	71.5%
Australian equities	22.5%
Cash	6.0%

Top 5 holdings

Security	Sector
Metlifecare	Healthcare
Contact Energy	Utilities
Infratil Limited	Utilities
Property Link Group	Real estate
Fisher & Paykel Healthcare	Healthcare
Number of holdings	17

Commentary

Despite continued concerns and tension around North Korea and the threat of US strikes, globally equity markets continued their strong year with the MSCI World index up 1.3% for the month. The broader New Zealand market (the S&P/NZX 50 index) was up 2.5%. This compared with the Australian market, as measured by the S&P/ASX 200 index, which was up 1.0%.

The fund lagged the NZ equity market for the month, however on a year-to-date basis the fund is significantly ahead of the NZX 50. Year-to-date the fund is up 10.69% compared to the S&P/NZX 50 index which is up 7.74%. Positive contributors to the performance for April included **Aristocrat Leisure** (ALL) which rose +9.0% over the months, **A2 Milk** (ATM) +13.0% and **Aconex** (ACX) +11.4%. ATM was the best performing stock in the fund for the month and also year to date (+58.7%) after continued traction of export sales of infant formula, leading to a good half year result and a further post result upgrade, and an easing of Chinese regulatory hurdles.

On the downside the fund's position in **Metlifecare** (MET) cost absolute performance after major shareholder, Infratil (IFT), sold down their stake from 19.9% to nil at an 8% discount to market. This saw the stock down 5.2% for the month. The manager used this opportunity to increase their position in the name. The fund ended the month with 17 stocks, high by relative standards, but two stocks had been identified for disposal at month end. Cash within the fund at the end of April was 9.7%.

The manager added one new stock to the fund over the month being Metro **Performance Glass** (MPG). Having owned the stock previously in the fund and successfully selling out the last stock over \$2.17 the manager saw fit to re-invest back since the name had fallen toward \$1.28, again offering valuation support. The stock had sold-off given poor results recently, showing little operating leverage which concerned the market in spite of the good level of demand from customers. Recent offshore selling had been aggressive providing the opportunity. By month-end the stock had rebounded and closed at \$1.38.

Currencies remained volatile and saw the NZD fall 0.15% against the AUD but fall a more solid 2.0% against the USD. The mild fall in the NZD against the AUD provided some assistance to portfolio returns as fund exposures to AUD are currently unhedged.

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

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