

Nikko AM Wholesale Concentrated 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

December 2007

Investment objective

To construct a portfolio of authorised investments that aims to outperform the Fund's benchmark return over a rolling three year period before fees.

Benchmark

RBNZ Official Cash Rate plus 5% per annum

Investment process

The Fund is a collection of Nikko AM NZ's domestic equity managers' highest conviction investment ideas to achieve capital appreciation.

The Fund's equity investments are not constrained by size, style, sector or index composition. That is, the Fund includes New Zealand and Australian equities:

- of all sizes: large, medium and emerging equities;
- with a blend of growth and value style investments;
- not overly focused on any specific sector; and
- that are not influenced by any index composition.

Structure and taxation

The Fund vehicle is a NZ domiciled Portfolio Investment Entity (PIE) which is priced daily. Investors elect 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 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.

Performance fee

Negotiated separately with each investor and invoiced outside the Fund.

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	Bmark	Excess	NZX50	ASX200 A\$
1 mth	1.78%	0.56%	1.22%	-0.17%	4.38%
3 mths	-3.38%	1.69%	-5.07%	-6.40%	5.18%
6 mths	-0.82%	3.46%	-4.28%	0.40%	10.59%
1 year	8.31%	7.18%	1.13%	10.10%	11.80%
2 yrs(pa)	14.87%	7.67%	7.20%	12.55%	7.08%
3 yrs(pa)	16.56%	7.82%	8.74%	14.71%	6.59%
5 yrs (pa)	18.28%	7.70%	10.58%	17.51%	11.85%
10 yrs pa)	10.53%	8.73%	1.79%	6.91%	4.53%

Fund size

NZ\$87 million

Contribution to performance (absolute)

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

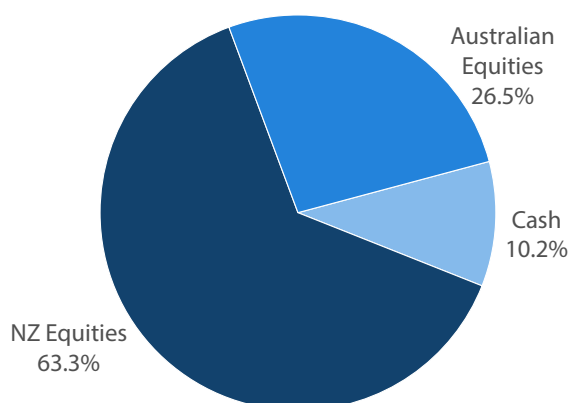
Top 5 holdings

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

Hedging

ASX exposure range	0 – 100%
Benchmark exposure	0%
Actual AUD exposure	26.5%

Asset allocation



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)

Compliance

The Fund complied with its investment mandate during the month.