

### Fund manager

Nikko Asset Management New Zealand Limited (Nikko AM).

Nikko AM is Asia's premier global asset manager. We actively manage over NZ\$4.8 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).

### Portfolio Manager

**Stuart Williams, Head of Equities – 1 year tenure.** Stuart has wide ranging experience in all aspects of the investment management industry developed over more than 18 years working for ANZ Investments and its predecessors. He has spent eight years performing detailed research and developing investment recommendations on listed companies in both New Zealand and Australia. Stuart has a strong track record in portfolio management of both benchmark relative and high conviction funds. He joined the Auckland-based team in August 2014.

**James Lindsay, Senior Portfolio Manager – 16 years tenure.** James had a number of years experience in sharebroking prior to becoming an Australasian Equity Analyst at Royal & SunAlliance Asset Management in Wellington. He joined the Auckland-based team in 1999 as an Equity Analyst, before being promoted to the role of Domestic Equities Manager in May 2001 and to Senior Portfolio Manager in April 2012.

### Fund launch

August 2006 (a similar portfolio has been operated by Nikko AM since 1998).

### Investment objective

The objective of the Fund is to construct a portfolio of authorised 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

### Investment philosophy

The Fund currently obtains investment exposures by investing in the Nikko AM Wholesale Concentrated Equity Fund, a wholesale unit trust managed by Nikko AM.

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

The wholesale 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 Unit Trust and Portfolio Investment Entity (PIE) which is priced daily. Unit holders elect their own Portfolio Investment Rate. Information is provided to the IRD and unit holders on an annual basis.

### PIE eligibility

Nikko AM may take any action it deems appropriate to ensure the Fund remains eligible to be a PIE. This includes the ability of Nikko AM to compulsorily withdraw a unit holder's units and pay the proceeds to that unit holder's nominated bank account.

### Distributions

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

### Hedging policy

Assets and liabilities are hedged to NZD at the discretion of the Manager.

### Investment restrictions

Nikko AM Wholesale Concentrated Equity Fund – the wholesale unit trust that the Nikko AM NZ Concentrated Equity Fund invests into.

Asset class	Target weight	Range
Cash & Debt Securities	0%	0% – 100%
New Zealand & Australian Equities	100%	-20% – 120%
Foreign Currency	0%	0% – 100%

The wholesale fund may hold fixed interest, cash and forward foreign exchange contracts in New Zealand and Australia. The wholesale fund may short sell securities up to a maximum of 20% of the Gross Asset Value of the Fund prior to the implementation of any commitment to short sell. Borrowing is not permitted.

### Management fees and other charges

A management fee of 1.00% per annum calculated as a percentage of the gross asset value of the Fund will be calculated and deducted from the Fund. This fee is calculated daily and is payable to Nikko AM. The management fee may be reduced or waived at our discretion.

Nikko AM may recover expenses (including the Trustee fee) up to a maximum of 0.25% per annum from the Fund.

### Performance fee

A performance fee is payable to Nikko AM of an amount not exceeding 10% per annum of gains over and above the benchmark return (outperformance of the RBNZ Official Cash Rate over a 12 month period by 5% per annum before fees). The performance fee is calculated after allowance for a management fee, the Trustee's fee or custodial fees and other costs and expenses recovered by the Fund. Capital losses from any previous periods must be recovered before payment of any performance fee for a subsequent period.

### Buy/sell spread

0.40% / 0.40%

### Trustee

Public Trust

### Custodian

Public Trust as legal custodian, BNP Paribas Fund Services Australasia Pty delegated as functional custodian.

### Minimum investment

Initial investment	\$5,000
Further investments	\$1,000

The Manager may accept applications for investments below the minimum investment amount at its discretion.

Performance

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

1 month	3 months	6 months	1 year
-2.85%	0.22%	0.43%	9.38%
2 years (pa)	3 years (pa)	5 years (pa)	Inception (pa)*
15.06%	13.81%	11.09%	10.13%

\* August 2006

Contributors to performance – January 2016

What helped	What hurt
NEXTDC Limited	ANZ Banking Group Limited
Airwork Holdings Limited	Infratil Limited
Fletcher Building Limited	Metlifecare Limited

Top five holdings

Security	Sector
Contact Energy	Utilities
ANZ Banking Group	Energy
NZ Refining Company	Financials
Metlifecare Limited	Healthcare
Infratil Limited	Utilities
<b>Number of holdings in portfolio</b>	<b>15</b>

Asset allocation

New Zealand equities	71.8%
Australian equities	25.9%
Cash	2.3%

Commentary

Global equity markets have been under pressure since the start of the year, falling from the first trading day and then posting further sharp falls before rallying on the final trading day of the month as the Bank of Japan surprised markets with negative interest rates. Investors continued to worry about a weakening Chinese economy and devaluations, an oil price which continues to collapse and disappointing US earnings season to date. China was one of the worst performing markets with the Shanghai Composite index falling 23% over the month. Global yields fell throughout the month on weakening US / Chinese data and dovish central bank statements. While the MSCI World index fell 6%, the New Zealand market was one of the better performers globally, down only 2.4% (S&P/NZX 50 Index) while the Australian market (S&P/ASX 200 Index) fell 5.5%.

The Fund performance was slightly behind that of the New Zealand market. Weakness in the Fund's holding of **ANZ Bank** caused all of the underperformance as the stock 11.2% (NZD terms) for the month. Two new stocks were added to the portfolio over the month – **Fletcher Building** and **Japara**. **Fletcher Building's** drive to take costs out of the business, strong market positions and the recent market sell-off of the name provided a good entry point into New Zealand's largest building materials company and developer. Supported by the central Government advancement of funding for key rail and roading projects over the next five years provides the company opportunities away from the slowing Christchurch market and weakness in Australia. Australian aged care and retirement services provider **Japara** (JHC) had been held by the Fund previously and the re-entry was partly driven by the recent sell-off in the name giving good valuation appeal. While not trading on cheap multiples, it offers value both in absolute and relative terms to listed peers along with strong earnings growth and a solid portfolio of assets.

New Zealand economic data released over the past month broadly suggested an improvement in domestic momentum. This was evidenced by a lift in both business and consumer sentiment over the month, extremely solid tourism statistics, and migration remaining at elevated inflow levels. Weakness in the dairy sector is acting as a counter to this along with a moderation in house price growth in the Auckland region. The RBNZ kept the OCR at 2.50% and suggested that "some further policy easing may be required over the coming year".

The New Zealand dollar fell 2.5% against the Australian dollar aiding portfolio returns due to the unhedged position of the portfolio.

*(bold denotes stock held in portfolio)*

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General Enquiries: NZenquiries@nikkoam.com | +64 9 307 6363