

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
0.13%	-1.27%	2.47%	6.25%
2 years (pa)	3 years (pa)	5 years (pa)	Inception (pa)*
14.53%	13.00%	10.74%	10.06%

* August 2006

Contributors to performance – February 2016

What helped	What hurt
Metlifecare Limited	ANZ Banking Group Limited
APN News & Media	NZ Refining Company
Fletcher Building Limited	Metro Performance Glass

Top five holdings

Security	Sector
Contact Energy	Utilities
Metlifecare Limited	Healthcare
NZ Refining Company	Financials
ANZ Banking Group	Energy
Infratil Limited	Utilities
Number of holdings in portfolio	14

Asset allocation

New Zealand equities	69.8%
Australian equities	25.9%
Cash	4.3%

Commentary

Global equity markets over the month of February struggled, falling in the first half of the month on rising risk aversion before recovering somewhat, although finishing the month generally lower. Markets were weighed down by a global sell-off in bank stocks, a weakening economic backdrop, particularly from China, deflation fears in Europe and concerns over Brexit fears over the upcoming British referendum on EU membership. Bond yields around the world fell on a weakening economic growth outlook. Japan's benchmark 10-year government bonds fell below zero, an unprecedented low for a G7 economy, following the Bank of Japan's adoption of negative interest rates the previous month. In Australia, equities were lower with mining companies outperforming and banks underperforming. The NZX50 Index (up 1.01%) outperformed global markets and the S&P / ASX 200 Index (-1.76%).

As was the case in New Zealand, the Australian market was pre-occupied with reporting season. The domestic earnings season showed a wider divergence of earnings than in recent earnings periods. One of the notable features has been the rise in dividend payouts. The largest positive contributors over the month were **Metlifecare (MET)** and **APN News and Media (APN)** (up 7.5% and 14.5% respectively). MET noted strong growth in key profit metrics being driven by the lift in list prices of resale units across the portfolio and increases in new sales of occupation right agreements. Recent Fund addition **Fletcher Building (FBU; +3.8%)** noted that strong market conditions in the New Zealand construction industry are expected to persist through the 2016 financial year, but that the outlook was more mixed in Australia. Other notable performances included **Western Areas (WSA; +9.4%)** and **Japara (JHC; +5.7%)** and on the downside the Fund's holding in **ANZ** continued to disappoint falling 8.2% with global sector pressure and investor concerns specific to the company. **Metro Performance Glass (MPG)** fell 6.1% with sales at opportune prices intra month reducing exposure to the building materials company.

The only portfolio activity in February was the sale of the Fund's position in Sky Network TV. While the stock, since its portfolio entry, only made a marginal positive return, concerns for the upcoming result led to the sale.

The New Zealand dollar rose 0.83% against the Australian dollar over the month. This impacted on Fund performance due to Australian dollar investments currently being unhedged.

(bold denotes stock held in portfolio)

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