

NIKKO AM CONCENTRATED EQUITY FUND

Monthly Fact Sheet

30 June 2016



Investment objective

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

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 calculated and 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. Estimate of expenses as at 1 July 2016 are 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
-2.90%	1.66%	7.63%	16.31%
2 years (pa)	3 years (pa)	5 years (pa)	Inception (pa)*
19.74%	17.01%	13.18%	10.83%

* August 2006

Contributors to performance – June qtr 2016

What helped	What hurt
Aristocrat Leisure Limited	NZ Refining Company Limited
NEXTDC Limited	Japara Healthcare
Contact Energy Limited	ERoad Limited

Asset allocation (% of fund)

New Zealand equities	72.0%
Australian equities	22.6%
Cash	5.4%

Top 5 holdings

Security	Sector
Contact Energy	Utilities
Metlifecare	Healthcare
Infratil Limited	Utilities
Aristocrat Leisure	Consumer Discretionary
Japara Healthcare	Healthcare
Number of holdings	17

Commentary

The New Zealand market (S&P/NZX 50 Index) was up a modest 2.3% over the quarter while the Australian market (S&P/ASX 200 Index) was stronger at 3.9%. Global equity markets generally posted solid returns for the quarter with the exception of the Europe and Japan. In the immediate aftermath of the “leave” decision in the Brexit referendum the New Zealand equity market fell sharply (-3.4%), although most of this was made back in the final days of the quarter.

Global equity markets posted generally solid returns for the June quarter with Europe and Japan being the few exceptions.

Earlier in the period post recent Fed statements many global economists have brought forward their expectations for the next Fed rate hike from late 2016 to either June or July but by quarter end this had pushed out into next year. Late in the quarter, the looming Brexit decision resulted in market uncertainty and the final vote for “Leave” initially upset markets but they bounced strongly with the UK market up 5.3% for the quarter with most of this coming from the +4.4% rise in June. The New Zealand market (S&P/NZX 50 Index) was up a modest 2.3%. In the immediate aftermath of the “Leave” decision the New Zealand equity market fell sharply (-3.4%), although most of this was made back in the final days of the quarter. The Australian market (S&P/ASX 200 Index) was stronger, up 3.94% for the quarter.

The strongest contribution to performance over the quarter was from recent Fund entrant **Aristocrat Leisure** which rose 28.8% after a strong result driven by solid market share gains in both the US and Australia. The company’s innovation and strong research and development pipeline has driven these gains. Other strong performers included data centre **NEXTDC** (+20.1%), the recent addition of fresh milk and infant formula company **A2 Milk** (+23.3%) and retirement operator **Metlifecare** (+14.7%). The Fund’s largest position, **Contact Energy** rose a solid 3.6% over the month and was the best performing generator retailer over the period.

A2 Milk, Aristocrat Leisure, Fisher & Paykel Healthcare, Sky City, Restaurant Brands and **Investore** were added to the portfolio over the quarter. Inter-quarter trades were also made in Westpac and Tegel but these stocks were not held at quarter end. The Fund finished the month with a higher than normal seventeen stock holdings.

On the economic news front, the release of the Budget provided surprisingly robust news on the state of the New Zealand economy. The NZ dollar rose 6.08% against the Australian dollar detracting from Fund performance due to Australian dollar investments currently being unhedged. Against the US dollar, the NZ dollar rose 3.0% during the quarter with one of the consequences seen as most likely from the UK Brexit vote is for the US Federal Reserve to be on hold for an extended period. While the RBNZ still has concerns that lower interest rate settings will further drive recent momentum in housing activity, recent moves in the NZ dollar will not be welcomed and may see the RBNZ cut rates by 25 basis points to 2.0% at their 11 August MPS in spite of the local economy not appearing to need further stimulus.

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

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