

NIKKO AM CONCENTRATED EQUITY FUND

Monthly Fact Sheet

31 July 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
5.01%	7.21%	16.34%	16.85%
2 years (pa)	3 years (pa)	5 years (pa)	Inception (pa)*
20.06%	17.90%	18.12%	11.28%

* August 2006

Contributors to performance – July 2016

What helped	What hurt
Aristocrat Leisure Limited	ERoad Limited
Infratil Limited	Airwork Holdings Limited
Contact Energy Limited	Restaurant Brands Limited

Asset allocation (% of fund)

New Zealand equities	64.5%
Australian equities	25.9%
Cash	9.6%

Top 5 holdings

Security	Sector
Contact Energy	Utilities
Aristocrat Leisure	Consumer Discretionary
Metlifecare	Healthcare
Infratil Limited	Utilities
Japara Healthcare	Healthcare
Number of holdings	16

Commentary

The New Zealand equity market performed strongly over July with the S&P / NZX50 Index returning 6.55%, making for a solid outperformance against global markets over the month and year-to-date. Markets were impacted by the Brexit referendum but bounced back quickly afterward. The rebound came as investors viewed additional monetary policy globally would support risk assets in general and equity markets more specifically and by a stronger than expected US reporting season. The Australian market was strong with the S&P ASX 200 Index up 6.29% while the US and the UK were up 3.56% and 3.38% respectively (local currency terms). The rally in equities went hand in hand with a significant move lower in bond yields as the New Zealand 10-year Government bond yield finished the month on its lows at 2.20%, down 15 basis points over the month, driven by the RBNZ signaling a likely OCR cut in August.

The Fund struggled to match the performance of the NZX50 with the strength in two large capitalisation stocks not owned – Spark and Auckland Airport – contributing strongly to the index performance, rising +11.1% and +13.5% respectively. In spite of this, recent addition to the Fund, **Aristocrat Leisure**, helped as it continued its good run of performance posting 16.4% return for the month as their earnings update driven by market share gains in key Australian and US markets drove results. Another recent addition, **Sky City** (+10.70%) contributed to the return for the month. **Restaurant Brands** and **Metlifecare** continued to trade higher, but underperformed the strong market and hence detracted relative value. **New Zealand Refining** detracted from performance as the stock traded flat for the month.

Two holdings were sold from the Fund over the month – Summerset and Fletcher Building – and traded Investore. Listed property operator Investor traded 9% higher post IPO and the manager sold the stock. Three stocks were introduced into the Fund over the month – **Aconex**, **Pacific Edge** and **Mainfreight**. **Aconex** is a global collaborative SaaS platform that helps clients manage construction projects and have an enviable position in some of the largest construction firms worldwide. Cancer testing biomedical company **Pacific Edge** was added with penetration opportunities potentially crystallising this coming year after trials have completed.

Currencies were volatile over the month with the NZD falling 0.82% against the AUD but rising 1.1% against the USD.

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

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