

NIKKO AM CONCENTRATED EQUITY FUND

Monthly Fact Sheet

31 August 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 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. As at the time of publication these expenses are estimated to be 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
-2.94%	-1.04%	12.78%	15.56%
2 years (pa)	3 years (pa)	5 years (pa)	Inception (pa)*
18.67%	16.47%	14.88%	10.85%

* August 2006

Contributors to performance – August 2016

What helped	What hurt
Metlifecare (MET)	Japara Healthcare (JHC)
EROAD (ERD)	Aristocrat Leisure (ALL)
Metro Performance (MPG)	Aconex (ACX)

Asset allocation (% of fund)

New Zealand equities	68.6%
Australian equities	23.5%
Cash	8.0%
Number of holdings	15

Top 5 holdings

Security	Sector
Contact Energy	Utilities
Metlifecare	Healthcare
Infratil	Utilities
Aristocrat Leisure	Consumer Discretionary
Japara Healthcare	Healthcare

Commentary

Following a sharp rally over July, the S&P/NZX 50 Gross Index rose 0.69% in August 2016 with 'small caps' outperforming leaders. The S&P/ASX200 Accumulation Index, S&P500 and FTSE100 returned -1.6%, +0.1% and +1.7% respectively in local currencies. Most indices performed poorly leading into the end of the month. On an annual basis, the NZX 50 Index has recorded an impressive 30.8% rise with the most recent earnings season generally providing good news. Results were in line with expectations with increased dividends continuing to be the main theme.

In economic news, most data released over August suggested continued momentum in the New Zealand economy driven by strong migration, construction and tourism activity. This has been supported by the RBNZ reducing the OCR by 0.25% to 2.00% at their August Monetary Policy Statement (MPS). Data appears to be suggesting a year-on-year growth rate of 3.3% with relatively muted inflation as food prices continue to fall.

The RBNZ continued with an explicit easing bias suggesting "further policy easing will be required to ensure that future inflation settles near the middle of the target range" and as such the market is expecting two additional OCR cuts in the next six months bottoming out at 1.5%. Currencies were volatile over the month with the NZD rising 1.73% against the AUD and up 0.82% against the USD.

The Fund performed poorly for the month, struggling to match the performance of the NZX50 with the strength of Fletcher Builder (FBU) and poor performance from a number of owned stocks. **Japara Healthcare** (JHC) fell 18.4% after continuing concerns for government funding, a below expectations outlook in its result and big misses from other sector companies results. Two other stocks – **Aristocrat Leisure** (ALL; -6.88%) and **Aconex** (ACX; -21.4%) – gave up recent strength detracting from performance.

On the positive side, the Fund's second largest position, **Metlifecare** (MET), continued to trade higher, up 8.16% and **EROAD** was up 11.4% for the month.

Four names were sold from the Fund over the month – data centre operator NEXTDC (NXT), Fisher and Paykel Healthcare (FPH), Airworks (AWK) and Sky City Entertainment. Two stocks were introduced into the Fund – **Fonterra Shareholders Fund** (FSF) and **PropertyLink Group** (PLG). The PLG IPO was poor and the manager continued to add to the name upon listing.

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

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