

NIKKO AM CONCENTRATED EQUITY FUND

Monthly Fact Sheet

30 September 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
0.22%	2.14%	3.84%	16.59%
2 years (pa)	3 years (pa)	5 years (pa)	Inception (pa)*
18.20%	15.14%	15.35%	7.21%

* August 2006

Contributors to performance – quarter

What helped	What hurt
Aristocrat Leisure	Japara Healthcare
Metlifecare Limited	Property Link Group
Metro Performance Glass	Eroad Limited

Asset allocation (% of fund)

New Zealand equities	66.6%
Australian equities	29.4%
Cash	4.0%

Top 5 holdings

Security	Sector
Contact Energy	Utilities
MetlifeCare Ltd	Healthcare
Infratil Limited	Utilities
Aristocrat Leisure	Consumer discretionary
Japara Healthcare	Healthcare
Number of holdings	17

Commentary

Following a sharp rally over July, the S&P/NZX 50 Index Gross (with imps) rose +0.69% in August and was flat in September to end the month as one of the strongest performing markets globally over the quarter. The NZX 50 FG Index rose 7.26% for the quarter. The S&P/ASX200 Accumulation Index, S&P500 and FTSE100 returning +5.1%, +3.3% and +6.1% respectively in local currencies. The NZX 50 index on a year-to-date basis has recorded an impressive 17.6% rise.

In economic news, recent quarterly data (for June) showed economic growth gaining momentum and is now above its long-term trends. GDP growth rose to 3.6% year-on-year to the end of June and above that seen for the year to March 2016 of 3.0%. Recent outperformance has come from the construction and services sectors both continuing to benefit from the sustained period of tourism and migration data. Migration numbers hit an all-time high over August aiding robust house price inflation. Currencies were volatile over the month with the NZD falling 0.63% against the AUD, mildly aiding the Fund's unhedged positions, but up 2.3% against the USD over the quarter.

The Fund produced a solid return for the quarter but on a relative basis struggled to match the relentless rise of the NZ market. Strength of NZX50 members with large index weights including Fletcher Building (FBU +27.8% for the quarter), Auckland Airport (AIA +14.76%), TradeMe (TME +23.67%) when not held contributed to the under performance against the index. Also hurting performance was Japara Healthcare (JHC) which fell 17.2% after continuing concerns for Government funding, a below expectations outlook in its result and big misses from other sector companies results. On the positive side, Aristocrat Leisure (ALL) rose 15.3%, Metlifecare (MET) rose 13.7% along with Metro Performance Glass (MPG) rose 21.68%, before it was sold, all positively contributed to performance.

The manager was busy over the quarter with a number of names sold including NEXTDC (NXT), Fisher and Paykel Healthcare (FPH), Airworks (AWK), Metro Performance Glass (MPG), Fletcher Building (FBU), Summerset (SUM) and Investore (IPL). New additions to the Fund over the quarter included Fonterra (FSF), PropertyLink Group (PLG), Aconex (ACX), Comvita (CVT) and Pacific Edge (PEB).

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

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