nikko am
Nikko Asset Management

NIKKO AM CONCENTRATED EQUITY FUND

Monthly Fact Sheet 31 October 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
-4.89%	-7.49%	-0.82%	7.86%

2 years (pa)	3 years (pa)	5 years (pa)	Inception (pa)*
13.83%	12.34%	13.90%	6.63%

* August 2006

Contributors to performance – month

What helped	What hurt
Mainfreight	Aconex Limited
Property Link	MetlifeCare
A2 Milk	Infratil Limited

Asset allocation (% of fund)

New Zealand equities	62.5%
Australian equities	28.9%
Cash	8.6%

Top 5 holdings

Security	Sector
Contact Energy	Utilities
Infratil Limited	Utilities
Metlife Care	Healthcare
Aristocrat Leisure	Consumer discretionary
Japara Healthcare	Healthcare
Number of holdings	**15**

Commentary

Global equity markets were mixed in October with Asian and European markets generally up while the US and Australasian markets were down. The MSCI World Index 100% hedged to NZD ended the month down 0.5%. With the US election, the prospect of the US Federal Reserve raising rates before the end of the year and offshore selling, the NZ Equity market was down 5.44% - following on from posting a historic high on 7 September of 7,571. The month was the worst month since 2010 and was the sixth worst monthly performance of the NZX50 Index. The NZ equity market closed down 8.1% from its peak and underperformed against the Australian market with the S&P/ASX 200 index down only 2.15% for the month with the Australian market led lower by Healthcare (-8.1%) and REITs (-7.4%) sectors. The majority of markets suffered from a rise in bond yields and a steepening in global yield curves led by the US, which saw 10-year bond yields rise from 1.59% to 1.85% hurting yield sensitive sectors and markets and bond markets which had their worst monthly return since May 2013 (the taper tantrum).

Currency markets were dominated by a strong USD as expectations around further Fed tightening began to increase. The NZD finished the month down 1.1% against the AUD (closing at 0.9399) and down 1.85% against the USD (to $0.7151). Oil was the big mover where Brent Oil peaked intra month at US$52.95 but finished down at US$46.97 and Gold was weaker by 4% over the month. The tone of domestic economic data releases over October continued to point to strong GDP growth of around 3.0% to 3.5% while inflationary pressures remained muted.

The Fund fell in absolute terms, but performed well against the wider market outperforming the S&P/NZX 50 Index by 0.77%. The Fund's holdings in Mainfreight **(MFT)** which rose 4.6% along with PropertyLink **(PLG)** +1.7% and A2 Milk **(ATM)** up 1.6% aided relative performance. Detractors of absolute performance included Aconex **(ACX)** and Metlifecare **(MET)**. The portfolio manager removed Sky City (SKC) from the portfolio during the month after a relatively successful trade. At month end cash was 8.6%, up from 1.5% at the end of September as the portfolio manager sold down the Fund's position in Fonterra (FSF). Cash was also allocated to mildly up-weighting Convita **(CVT)** and Restaurant **Brands (RBD).**

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