Nikko Asset Management

NIKKO AM CONCENTRATED EQUITY FUND

Monthly Fact Sheet 31 January 2017

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
-0.67%	0.39%	-7.13%	8.05%

2 years (pa)	3 years (pa)	5 years (pa)	Inception (pa)*
8.71%	12.67%	13.99%	6.51%

* August 2006

Contributors to performance – month

What helped	What hurt
Infratil	Aconex
Contact Energy	Japara Healthcare
EROAD	Pacific Edge

Asset allocation (% of fund)

New Zealand equities	61.5%
Australian equities	23.9%
Cash	14.6%

Top 5 holdings

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

Commentary

Equity markets started the year on a positive note with the MSCI World index up 1.6%. All eyes have been on President Trump following his inauguration on January 20th. Early signs are that he will follow through with key pledges with orders signed to withdraw from the Trans Pacific Partnership, immigration bans and plans in motion to commence building a wall between the US and Mexico.

The New Zealand equity market, as represented by the S&P/NZX 50 index rose strongly, up 2.5%, as compared to the Australian market which was down 0.8% (S&P/ASX 200 index).

Newly added **Tilt Renewables** (TLT) performed soundly over the month after entry into the fund. The stock rallied 18.6% for the month albeit it was a small position within the portfolio. **EROAD** (ERD) rising 12.5%, **Restaurant Brands** (RBD) up 9.1% and **Infratil** (IFT) +4.4% aided fund performance. In spite of these performances the portfolio lost a little value and under-performed relative to the NZX50 over the month.

The underperformance of the fund was primarily the result of SaaS software firm **Aconex** (ACX) which guided to revenue being 8% lower than previous guidance. While revenue guidance still implies circa +10% organic growth rate at the midpoint vs +20% under previous guidance (and +29% in the 2016 result), the cut to earnings guidance was more dramatic. Earnings are expected to be circa 50% weaker than previously forecast which lead to a share price fall of circa 40%. We remain attracted to the Aconex business model and their blue chip client base and note the stock has recovered somewhat from its lows.

Cash within the fund rose over the month as the Manager reduced holdings in **Contact Energy** (CEN) and **NZ Refining** (NZR) after strong runs. At month end cash represented 14.6% of the fund. The Portfolio Manager started the process of adding diversified Australian listed property **Mirvac Group** (MGR) into the portfolio. Mirvac owns and manages a selection of mostly office, but also retail and industrial property assets, as well as developing residential and commercial projects. The stock's introduction coincides with its recent sell off as yield names were under pressure from rising bond yields and the 'Trump' effect.

In economic news, the New Zealand economy continued to show evidence that it is growing around 3.0-3.5% year-on-year suggesting solid earnings growth for many companies. The drivers remained the same with tourism, migration and a strong construction sector supporting performance. The NZD rose 0.58% over the month against the Australian dollar and an impressive 5.6% against the USD.

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