

# NIKKO AM CONCENTRATED EQUITY FUND

## Monthly Fact Sheet

31 March 2017



### Investment objective

The objective of the Fund is to construct a portfolio of permitted investments that outperforms 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
4.15%	8.73%	4.52%	8.53%
2 years (pa)	3 years (pa)	5 years (pa)	Inception (pa)*
12.96%	15.22%	15.66%	7.31%

\* August 2006

## Contributors to performance – month

What helped	What hurt
Aristocrat Leisure	Aconex
A2 Milk	Fletcher Building
Contact Energy	Japara Healthcare

## Asset allocation (% of fund)

New Zealand equities	66.6%
Australian equities	21.5%
Cash	11.9%

## Top 5 holdings

Security	Sector
Metlifecare	Healthcare
Contact Energy	Utilities
Infratil Limited	Utilities
Aristocrat Leisure	Consumer discretionary
Property Link Group	Real estate
<b>Number of holdings</b>	<b>16</b>

## Commentary

The S&P/NZX 50 Index rose +0.82% in March 2017 with large caps stocks underperforming mid-caps and small-caps. Off-shore markets, S&P/ASX200 Accumulation, S&P500 and FTSE100 returned +3.3%, +0.1% and +1.1% respectively (in local currencies). For the quarter, the S&P/NZX 50 returned an impressive but in-line with global markets +5.08% as compared to +4.82% for the S&P/ASX200 Accumulation and S&P500 +5.53%. The main driver for the quarters performance was the continued 'Trump rally' driven by his 'tweeted' policies impacting investors thoughts on re-inflation, reduced regulation, capital spending and the prospect of tax cuts for many including companies. Interest rates around the world rose with the Fed raising rates as expected and markets were able to absorb this along with the UK triggering article-50. Generally better than expected economic data and the potential for the ECB to be confident enough to accelerate the reversal of its bond buying programme were also behind the upbeat sentiment.

Over the quarter a small position in Mirvac was bought and sold for an 8% return while **Fletcher Building** (FBU) entered the fund albeit a relatively small position.

By period end cash had built to 11.6% of the fund as positions in **Contact** (CEN), **Infratil** (IFT) and **Aristocrat** (ALL) were reduced countering the increase in **NZ Refining** (NZR) post a partial placement of BP stake (selling down from 20.2% to 10.1%) and **Pacific Edge** (PEB) from a share issue to raise additional monies.

The fund was aided by holding a position in the two top performing stocks in the NZX 50 over the month with **A2 Milk** (ATM) +26.7% and **Comvita** (CVT) +21.5%. For the quarter the fund performed very well in total returns and in relative terms to the NZX50 Index. Total return for the fund was +9.0% for the quarter compared to the +5.08% for the NZX50. For the quarter ATM returned 40.4%. Other positive contributors for the quarter included **EROAD** (ERD) +32.5%, **Aristocrat ALL** +21.9% and **Fisher & Paykel Healthcare** (FPH) +13.85%. Detractors of portfolio performance for the month included FBU post its entry and **Aconex** (ACX). Fletcher Building cut its earnings forecast by \$110 million (~15%) after identifying further losses in its construction division. The underperformance for ACX was primarily the result of the SaaS software firm guiding to revenue being 8% lower than previous guidance.

Currencies remained volatile and saw the NZD fall 4.5% against the AUD but gain 1.04% against the USD. The fall in the NZD against the AUD aided portfolio returns as the fund's exposure to AUD are currently unhedged.

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

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