

NIKKO AM CONCENTRATED EQUITY FUND

Monthly Fact Sheet

31 May 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.

Chapman Tripp – Fund Manager of the Year – Equities



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
-0.47%	4.68%	10.85%	4.18%
2 years (pa)	3 years (pa)	5 years (pa)	Inception (pa)*
11.81%	14.34%	16.27%	7.24%

* August 2006

Contributors to performance (absolute)

What helped	What hurt
NZ Refining	Metlifecare
Aristocrat Leisure	Pacific Edge
Infratil Ltd	Fletcher Building

Asset allocation (% of fund)

New Zealand equities	66.8%
Australian equities	21.7%
Cash	11.5%

Top 5 holdings

Security	Sector
Metlifecare	Healthcare
Infratil Limited	Utilities
Contact Energy Ltd	Utilities
Property Link Group	Real estate
NZ Refining Coy	Energy
Number of holdings	15

Commentary

Global markets continued to move higher with the MSCI World index up 1.7% and US markets reaching all-time highs with the S&P 500 index up 1.2%. The Australian market was impacted by levies on the banks announced in the Budget which saw the S&P/ASX 200 Financials sector down 9.2%. The broader NZ equity market was up 0.59% as measured by the S&P/NZX 50 index. The Australian market as represented by the S&P/ASX 200 index fell 2.75% with the financial sector having a large impact and retail stocks being affected by Amazon's impending entry into the Aussie market with retail stocks down 9.3% for the month. This pushed the Aussie market to their largest monthly decline since January 2016.

The fund lagged the NZ equity market for the month, however on a year-to-date basis the fund remains ahead of the S&P/NZX 50 index, 9.6% compared to 8.4% respectively.

Positive contributors to the performance for May included **NZ Refining** (NZR) which rose +8.1% over the month, **Aristocrat** (ALL) +7.5% and **Infratil** (IFT) +3.0%. On the downside, the fund's position in **Metlifecare** (MET) cost absolute performance from continued flow-on effects from major shareholder, **Infratil** (IFT), who sold down their stake from 19.9% to nil at an 8% discount to market and sentiment started to turn against residential property prices. This saw the stock down 5.5% for the month on top of a similar move the month prior. ALL released its first half results with overall sales +22% and earnings +49% after strong North American growth aided. Management reiterated full-year guidance was of 20-30% growth in net earnings with further investment in R&D.

The fund ended the month with 15 stocks after selling Tilt Renewables (TLT) and Comvita (CVT). Currencies remained volatile and saw the NZD rising 4.07% against the AUD and a +3.38% against the USD. The rise in the NZD against the AUD was a drag on portfolio returns as fund exposures to AUD are currently unhedged.

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

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