

# NIKKO AM CONCENTRATED EQUITY FUND

## Monthly Fact Sheet

## 31 July 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 vehicle is a NZ domiciled Portfolio Investment Entity (PIE) which is priced daily. 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 |
|---------|----------|----------|--------|
| 2.50%   | 3.23%    | 14.10%   | 5.97%  |

| 2 years (pa) | 3 years (pa) | 5 years (pa) | Inception (pa)* |
|--------------|--------------|--------------|-----------------|
| 11.27%       | 15.17%       | 16.52%       | 7.48%           |

\* August 2006

## Contribution to performance (absolute)

| What helped             | What hurt          |
|-------------------------|--------------------|
| EROAD                   | Aristocrat Leisure |
| Metro Performance Glass | Pacific Edge       |
| Metlifecare             | Fletcher Building  |

## Asset allocation (% of fund)

|                         |       |
|-------------------------|-------|
| New Zealand equities    | 61.5% |
| Australian equities     | 20.4% |
| Cash & cash equivalents | 18.1% |

## Top 5 holdings

| Security                  | Sector      |
|---------------------------|-------------|
| Metlifecare               | Healthcare  |
| Infratil Limited          | Utilities   |
| Contact Energy Ltd        | Utilities   |
| Property Link Group       | Real estate |
| NZ Refining Coy           | Energy      |
| <b>Number of holdings</b> | <b>14</b>   |

## Commentary

Global equity markets continued their strong run with the MSCI World index up 1.8%. However, July saw mixed regional performance with Europe flat, the US up (S&P 500 index) up 1.9%, and Asia/EM experiencing strong outperformance. The US market was aided by dovish comments from the Federal Reserve Governor which also led to a depreciation of the USD vs the NZD and AUD. The NZ market, as measured by the S&P/NZX 50 index, was up 1.1% while the Australian market, based on the S&P/ASX 200 index, was flat for the month. Equities continue to find support through a combination of synchronised global growth in earnings, a continued economic recovery and continued accommodative monetary policy conditions in many jurisdictions.

The portfolio had a strong month of performance with the fund up +2.89% against the NZX 50 performance of +1.1% (gross of fees and taxes). Strong performances from **EROAD** (ERD) +32.5% and **Metro Performance Glass** (MPG) +16.1% added solid value add while two of the larger fund positions **Metlifecare** (MET) and **Infratil** (IFT) produced credible returns of +4.1% and 3.9% respectively. On the downside **Aristocrat Leisure** (ALL) fell 9% on the strength of the AUD against the USD.

The manager sold the fund's position in **Fletcher Building** (FBU) over the month. Following a further write-down announcement the stock performed solidly over the month, +5.7% over July. The fund ended the month with thirteen stocks. Cash within the fund at the end of July was 17.8%.

Currencies remained volatile and saw the NZD falling 1.65% against the AUD and gaining +2.2% against the USD. The fall in the NZD against the AUD provided a small positive add to portfolio returns as fund exposures to AUD are currently unhedged.

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