

NIKKO AM CONCENTRATED EQUITY FUND

Monthly Fact Sheet

31 August 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 0.18% 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
3.37%	7.20%	12.21%	12.85%
2 years (pa)	3 years (pa)	5 years (pa)	Inception (pa)*
14.20%	16.70%	16.42%	7.74%

* August 2006

Contribution to performance (absolute)

What helped	What hurt
A2 Milk Company	Metro Performance Glass
Metlifecare	Japara Healthcare
Contact Energy	Restaurant Brands

Asset allocation (% of fund)

New Zealand equities	60.1%
Australian equities	21.2%
Cash & cash equivalents	18.7%

Top 5 holdings

Security	Sector
Metlifecare	Healthcare
Infratil Limited	Utilities
Aristocrat Leisure	Consumer Discretionary
Contact Energy	Energy
Propertylink Group	Real Estate
Number of holdings	13

Commentary

August saw a number of events moving markets in different ways with reporting season, stock specific outcomes and a number of geo-political events including North Korean missile launches resulting in a global move for some 'risk off' and Hurricane Harvey being more localised in the US. Closer to home as the election looms, the Labour party has had a dramatic turnaround in popularity post their change in leadership while the Greens appears to have been the major loser, partly their own making. The NZ share market for the month of August, as measured by the S&P/NZX 50 index, rose an impressive +1.7% well ahead of the Australian S&P/ASX 200 index which was up 0.7% for the month. Other global market performances included the US S&P 500 up only 0.05%, Nikkei -1.4% and the UK FTSE +0.8%.

The fund performed well over the month of August with a gross total return of 4.13%. Exceptional performances came from a number of holdings creating the value add. This included the fund's largest position, **Metlifecare** (MET), rising +9.1% on a solid result and decent lift in its NTA per share. Additionally, Australian listed Software as a Service company Aconex (ACX) rose +21.2% for the month contributing strongly before being sold from the fund completely. **Property Link** (PLG) and **A2 Milk** (ATM) also added strongly to performance with the stocks rising +8.4% and +25.8% respectively. Two stocks that were owned over the month disappointed including Metro Performance Glass (MPG) and Japara (JHC) both of which held back fund performance on poor results and lower than expected market outlooks. Overall however, earnings season aided the fund and the manager and fund avoided owning a number of NZX index member positions that disappointed including TradeMe (TME) -15%, Chorus (CNU) -10% and Sky Television (SKT) -14% over the month.

With the sale of Aconex, the fund's cash weight built to a 12 month high of 18.7%. The fund ended the month with twelve stocks. Some level of conservatism was being undertaken as market valuations appeared stretched on average with many global markets hitting all-time highs and risks both globally and locally being largely ignored. Currencies remained volatile and saw the New Zealand dollar (NZD) falling 3.85% against the Australian dollar (AUD) and 4.47% against the US dollar (USD). The fall in the NZD against the AUD provided a positive add to portfolio returns as fund exposures to AUD are unhedged currently.

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

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