

Nikko AM Wholesale Concentrated Equity Fund

Fund manager

Nikko Asset Management New Zealand Limited (Nikko AM).

Nikko AM is Asia's premier global asset manager. In New Zealand we actively manage NZ\$4 billion of investments for a diverse group of clients, including superannuation schemes, charitable trusts, KiwiSaver scheme providers, corporations and local government along with providing services to financial intermediaries through wrap platforms.

We offer investment management services in domestic sectors (equities, fixed interest and cash) through our Auckland-based investment team and employ offshore managers to manage global sectors (global equities, global bonds and alternative investments).

Fund launch

December 2007

Investment objective

To outperform the RBNZ Official Cash Rate over a rolling three year period by 5% per annum before management fees by investing primarily in New Zealand and Australian listed equities.

Benchmark

RBNZ Official Cash Rate plus 5% per annum

Investment process

The Fund is a collection of Nikko AM's domestic equity managers' highest conviction investment ideas to achieve capital appreciation.

The Fund's equity investments are not constrained by size, style, sector or index composition. That is, the Fund includes New Zealand and Australian equities:

- of all sizes: large, medium and emerging equities;
- with a blend of growth and value style investments;
- not overly focused on any specific sector; and
- that are not influenced by any index composition.

Structure and taxation

The Fund vehicle is a Unit Trust and Portfolio Investment Entity (PIE) which is priced daily. Unit holders elect their own Portfolio Investment Rate. The Fund invests directly into tradeable capital market securities. Whilst the majority of the return is "excluded income" there will be a portion of interest income, dividends not fully imputed, and certain ASX listed shares will not fit the criteria for trading gains/losses to be excluded. Information is provided to the IRD and unit holders on an annual basis.

Distributions

At any date for any period fixed by the Manager

Hedging policy

Assets and liabilities are hedged to NZD at the discretion of the Manager. Hedging is based on the gross asset value of the Fund.

Management fees and other charges

Investment management fees will be negotiated separately with each investor and invoiced outside the Fund.

All Fund statutory and operating costs will be met directly by the Manager.

Performance fee

Negotiated separately with each investor and invoiced outside the Fund.

Buy/sell spread

0.40% / 0.40%

Trustee

Public Trust

Custodian

Public Trust as legal custodian, BNP Paribas Fund Services Australasia Pty delegated as functional custodian.

Selected investors only

Participation in the Fund is limited to persons or entities who are New Zealand resident, and:

- whose principal business is the investment of money; or
- who, in the ordinary course of and for the purposes of their business, habitually invest money;

and, consequently (or for other reasons) do not constitute "the public" for the purposes of the Securities Act 1978 (**Exempt Person**). Nikko AM will not therefore be required to produce a registered prospectus or an investment statement in relation to the proposed investment (such documents otherwise being required were this offer to be made to persons or entities that are not Exempt Persons), and such documents will not be produced accordingly. Investors in the Fund will be required to acknowledge their status as an Exempt Person as part of their subscription in the Fund. Investors in the Fund will also be required to undertake to Nikko AM that any transfers of interests in the Fund will only be to Exempt Persons.

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Performance (NZD gross returns)

	Fund %	Bmk %	Excess %	NZX50 %	ASX 200 (A\$) %
1 mth	-2.94	0.62	-3.56	-2.43	-5.48
3 mths	0.60	1.86	-1.27	3.19	-3.57
6 mths	1.38	3.83	-2.45	4.87	-9.94
1 year	12.32	8.07	4.25	8.83	-6.13
2 yrs(pa)	18.47	8.14	10.33	14.01	2.75
3 yrs(pa)	17.20	7.93	9.28	14.66	5.45
5 yrs (pa)	14.16	7.77	6.39	14.59	5.73
10 yrs pa	14.59	9.23	5.36	7.87	4.68

Fund size

\$84 million

Contributors to performance (absolute)

What helped	What hurt
NEXTDC Limited	ANZ Banking Group Limited
Airwork Holdings Limited	Infratil Limited
Fletcher Building Limited	Metlifecare Limited

Top five holdings

Security	Sector
Contact Energy	Utilities
ANZ Banking Group	Energy
NZ Refining Company	Financials
Metlifecare Limited	Healthcare
Infratil Limited	Utilities
Number of holdings in portfolio	15

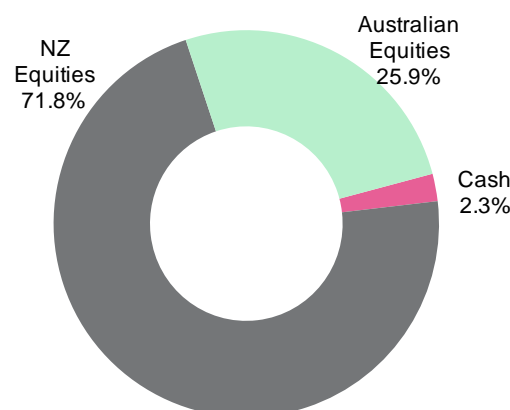
Hedging (% of fund)

AUD currency exposure	0 – 100%
Benchmark exposure	0%
Actual AUD exposure	17.5%
	(ie the Fund is currently unhedged)

Compliance

The Fund complied with its investment mandate during the month.

Asset allocation



Commentary

Global equity markets have been under pressure since the start of the year, falling from the first trading day and then posting further sharp falls before rallying on the final trading day of the month as the Bank of Japan surprised markets with negative interest rates. Investors continued to worry about a weakening Chinese economy and devaluations, an oil price which continues to collapse and disappointing US earnings season to date. China was one of the worst performing markets with the Shanghai Composite index falling 23% over the month. Global yields fell throughout the month on weakening US / Chinese data and dovish central bank statements. While the MSCI World index fell 6%, the New Zealand market was one of the better performers globally, down only 2.4% (S&P/NZX 50 Index) while the Australian market (S&P/ASX 200 Index) fell 5.5%.

The Fund performance was slightly behind that of the New Zealand market. Weakness in the Fund's holding of **ANZ Bank** caused all of the underperformance as the stock 11.2% (NZD terms) for the month. Two new stocks were added to the portfolio over the month – **Fletcher Building** and **Japara**. **Fletcher Building's** drive to take costs out of the business, strong market positions and the recent market sell-off of the name provided a good entry point into New Zealand's largest building materials company and developer. Supported by the central Government advancement of funding for key rail and roading projects over the next five years provides the company opportunities away from the slowing Christchurch market and weakness in Australia. Australian aged care and retirement services provider **Japara** (JHC) had been held by the Fund previously and the re-entry was partly driven by the recent sell-off in the name giving good valuation appeal. While not trading on cheap multiples, it offers value both in absolute and relative terms to listed peers along with strong earnings growth and a solid portfolio of assets.

New Zealand economic data released over the past month broadly suggested an improvement in domestic momentum. This was evidenced by a lift in both business and consumer sentiment over the month, extremely solid tourism statistics, and migration remaining at elevated inflow levels. Weakness in the dairy sector is acting as a counter to this along with a moderation in house price growth in the Auckland region. The RBNZ kept the OCR at 2.50% and suggested that "some further policy easing may be required over the coming year".

The New Zealand dollar fell 2.5% against the Australian dollar aiding portfolio returns due to the unhedged position of the portfolio.

(bold denotes stock held in portfolio)