

## 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\$4.8 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.

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#### Selected investors only

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

- (a) whose principal business is the investment of money; or  
(b) 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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**Nikko AM Wholesale Concentrated Equity Fund**

Performance (NZD gross returns)

|                  | Fund %       | Bmk %       | Excess %     | NZX50 %      | ASX 200 (A\$) % |
|------------------|--------------|-------------|--------------|--------------|-----------------|
| 1 mth            | 9.51         | 0.60        | 8.91         | 8.78         | 4.73            |
| <b>3 mths</b>    | <b>6.98</b>  | <b>1.81</b> | <b>5.18</b>  | <b>7.21</b>  | <b>-2.75</b>    |
| 6 mths           | 14.37        | 3.72        | 10.65        | 21.35        | 3.55            |
| <b>1 year</b>    | <b>21.87</b> | <b>7.92</b> | <b>13.96</b> | <b>17.26</b> | <b>-9.59</b>    |
| 2 yrs(pa)        | 22.70        | 8.14        | 14.57        | 16.21        | 1.58            |
| <b>3 yrs(pa)</b> | <b>19.19</b> | <b>7.93</b> | <b>11.27</b> | <b>16.63</b> | <b>5.40</b>     |
| 5 yrs (pa)       | 15.55        | 7.76        | 7.79         | 15.99        | 5.70            |
| <b>10 yrs pa</b> | <b>14.27</b> | <b>9.14</b> | <b>5.12</b>  | <b>7.74</b>  | <b>4.43</b>     |

Fund size

\$90 million

Contributors to performance (absolute)

| What helped       | What hurt               |
|-------------------|-------------------------|
| Contact Energy    | NZ Refining             |
| MetlifeCare       | ANZ Bank                |
| Fletcher Building | Metro Performance Glass |

Top five holdings

| Security                               | Sector     |
|--|------------|
| Contact Energy                         | Utilities  |
| MetlifeCare Ltd                        | Healthcare |
| Infratil Limited                       | Utilities  |
| NZ Refining Company                    | Energy     |
| Fletcher Building                      | Materials  |
| <b>Number of holdings in portfolio</b> | <b>11</b>  |

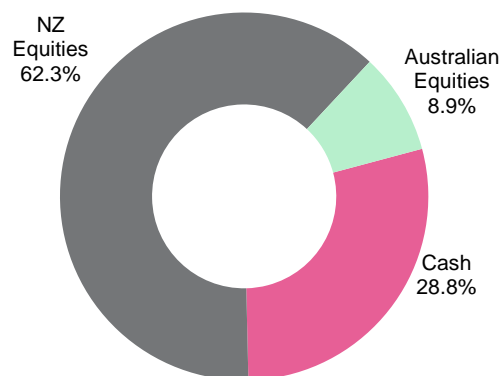
Hedging (% of fund)

|                       |                                     |
|-----------------------|-------------------------------------|
| AUD currency exposure | 0 – 100%                            |
| Benchmark exposure    | 0%                                  |
| Actual AUD exposure   | 8.9%                                |
|                       | (ie the Fund is currently unhedged) |

Compliance

The Fund complied with its investment mandate during the month.

Asset allocation



Commentary

Equities went through a roller coaster ride over the first quarter of 2016. US stocks fluctuated on their way to the first monthly gain in four months, with the S&P 500 near this year's high. Markets rallied as central banks from Asia to Europe and America signalled they stand ready to bolster flagging growth around the world. The S&P/NZX50 benchmark index rallied +8.78% in March bringing the quarterly return to 7.21%. European stocks dropped over the quarter to wrap up what had been the worst start to a year since the financial crisis. The ASX 200 rose 4.73% over the month but remained down for the year to date at -2.75%. Over the month of March banks and resources stocks paved the way higher. Commodities over the period were mixed. Locally, the Reserve Bank of New Zealand cut the Official Cash Rate (OCR) twice including a surprise cut in early March.

The Fund finished slightly ahead of the NZX50 Index over the month but slightly behind over the quarter. Strong performing stocks included the 13.8% rise in **Metlifecare** (MET), **Fletcher Building's** 18.8% rally and Western Areas (WSA) which had risen around 15% before it was sold. Other notable holdings that performed included **EROAD** (ERD) +22.8%, **Next DC** (NXT) +19%, APN +19% (before it was sold) and **Airworks** +16.5%.

The portfolio manager was active over the quarter with a number of new names added and sold from the Fund. As markets sold off the cash levels, which had started the quarter at ~18% of the Fund, fell to around 2% by the end of January as value emerged. As markets rallied strongly from their lows the manager sold positions ending with 28% cash as value was crystallised in a number of names. Over the period Western Areas (WSA), APN News and Media (APN), Sky Television (SKT) and ANZ Bank (ANZ) were sold from the Fund. New stocks added included Fletcher Building (FBU) and Australian listed provider of aged care and retirement living services, Japara (JHC).

The NZ dollar fell 3.91% against the Australian dollar but rose 1.14% against the USD over the quarter. This aided Fund performance due to Australian dollar investments currently being unhedged. The USD fell due to the flow on effects of Yellen delaying further interest rate increases in the US.

*(bold denotes stock held in portfolio)*