

## 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

0.35% / 0.35%

### 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            | 5.53         | 0.60        | 4.93         | 3.28         | 3.09            |
| <b>3 mths</b>    | <b>15.14</b> | <b>1.79</b> | <b>13.35</b> | <b>13.48</b> | <b>11.60</b>    |
| 6 mths           | 14.37        | 3.64        | 10.73        | 16.01        | 6.46            |
| <b>1 year</b>    | <b>24.40</b> | <b>7.71</b> | <b>16.69</b> | <b>22.04</b> | <b>-2.38</b>    |
| 2 yrs(pa)        | 23.82        | 8.08        | 15.74        | 18.13        | 3.59            |
| <b>3 yrs(pa)</b> | <b>21.88</b> | <b>7.91</b> | <b>13.97</b> | <b>17.48</b> | <b>7.71</b>     |
| 5 yrs (pa)       | 16.54        | 7.75        | 8.79         | 16.23        | 7.54            |
| <b>10 yrs pa</b> | <b>13.21</b> | <b>9.05</b> | <b>4.16</b>  | <b>8.44</b>  | <b>5.34</b>     |

Fund size

\$76 million

Contributors to performance (absolute)

| What helped         | What hurt                   |
|---------------------|-----------------------------|
| Aristocrat Leisure  | NZ Refining Company Limited |
| Metlifecare Limited | Japara Healthcare Limited   |
| Contact Energy      | Eroad Limited               |

Top five holdings

| Security                               | Sector                 |
|--|------------------------|
| Contact Energy                         | Utilities              |
| Metlifecare Limited                    | Healthcare             |
| Infratil Limited                       | Utilities              |
| Aristocrat Leisure                     | Consumer Discretionary |
| Japara Healthcare                      | Healthcare             |
| <b>Number of holdings in portfolio</b> | <b>13</b>              |

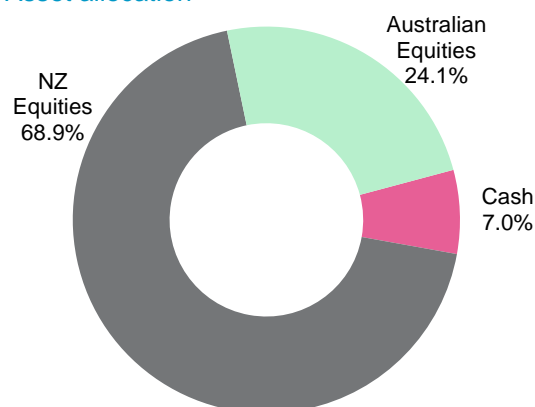
Hedging (% of fund)

|                     |  |
|---------------------|--|
| ASX exposure        | 0 – 100%                               |
| Benchmark exposure  | 0%                                     |
| Actual AUD exposure | 24.1%                                  |
|                     | (i.e., the Fund is currently unhedged) |

Compliance

The Fund complied with its investment mandate during the month.

Asset allocation



Commentary

Global equity markets generally posted solid returns in May with the UK FTSE being one of the few exceptions as concerns for Brexit hurt its performance. After recent US Federal Reserve statements many global economists have brought forward their expectations for the next US rate hike from late 2016 to either June or July. This did not unsettle financial markets as it did the first time a rate increase was close.

The New Zealand market (S&P/NZX 50 index) was up 3.3% and the Australian market (S&P/ASX 200) was similarly strong up 3.1% for the month.

The Fund outperformed the NZX50 Index providing a 5.1% return for the month and around 11% for the 2016 year to date. The strongest contribution came from recent addition, **Aristocrat Leisure**, which rose 26.2% after a strong result driven by solid market share gains in both the US and Australia. The company's innovation and strong research and development pipeline has driven these gains. Other strong performers included retirement operator **Metlifecare** up 14.7% and data centre **NEXTDC** (+17.9%). The Fund's largest position, **Contact Energy**, rose a solid 6% over the month and was the best performing generator retailer over the period.

One position was sold over the month – Tegal Group (TGL) – and this, along with cash already on hand, was used to add to existing positions including **Metlifecare**, **Infratil**, **Aristocrat Leisure** and **Japara Healthcare**.

On the economic front, the release of the New Zealand Budget provided surprisingly robust news on the state of the local economy and this may temper the chances of the RBNZ lowering the OCR at their next meeting. The New Zealand dollar rose 1.86% against the Australian dollar on top of the +1.75% rise from April. This detracted from performance due to Australian dollar investments currently being unhedged. Against the US dollar, the New Zealand dollar fell 3.1% as Fed Chair Yellen signalled a return to rises in interest rates.

*(bold denotes stock held in portfolio)*