

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\$5 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 construct a portfolio of authorised investments that aims to outperform the Fund's benchmark return over a rolling three year period before fees.

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

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%.

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 Limited delegated as functional custodian.

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Performance (NZD gross returns)

	Fund	Bmark	Excess	NZX50	ASX200 A\$
1 mth	-2.91%	0.58%	-3.49%	-1.95%	-2.45%
3 mths	2.08%	1.76%	0.32%	2.29%	3.94%
6 mths	9.21%	3.60%	5.61%	9.67%	1.09%
1 year	19.73%	7.62%	12.12%	21.89%	0.56%
2 yrs(pa)	23.66%	8.04%	15.61%	17.38%	3.08%
3 yrs(pa)	21.17%	7.91%	13.26%	17.31%	7.66%
5 yrs (pa)	16.53%	7.75%	8.78%	16.41%	7.40%
10 yrs pa)	12.34%	9.01%	3.33%	8.30%	4.86%

Fund size

NZ\$80 million

Contribution to performance (absolute)

What helped	What hurt
Aristocrat Leisure Limited	NZ Refining Company Limited
NEXTDC Limited	Japara Healthcare
Contact Energy Limited	ERoad Limited

Top 5 holdings

Security	Sector
Contact Energy	Utilities
Metlifecare	Healthcare
Infratil Limited	Utilities
Aristocrat Leisure	Consumer Discretionary
Japara Healthcare	Healthcare
Number of holdings	17

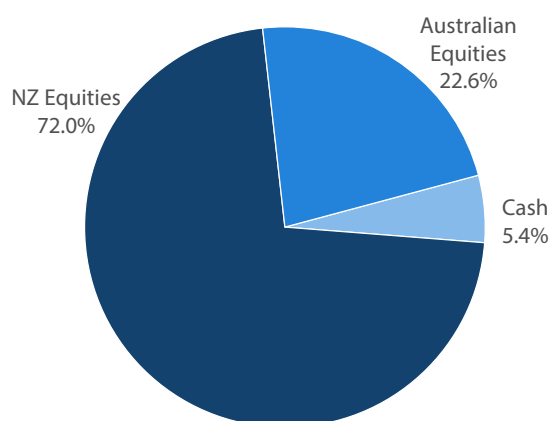
Hedging

ASX exposure 0 – 100%
 Benchmark exposure 0%
 Actual AUD exposure 22.6%
 (i.e. the Fund is currently unhedged)

Compliance

The Fund complied with its investment mandate during the month.

Asset allocation



Commentary

The New Zealand market (S&P/NZX 50 Index) was up a modest 2.3% over the quarter while the Australian market (S&P/ASX 200 Index) was stronger at 3.9%. Global equity markets generally posted solid returns for the quarter with the exception of the Europe and Japan. In the immediate aftermath of the “leave” decision in the Brexit referendum the New Zealand equity market fell sharply (-3.4%), although most of this was made back in the final days of the quarter.

Global equity markets posted generally solid returns for the June quarter with Europe and Japan being the few exceptions. Earlier in the period post recent Fed statements many global economists have brought forward their expectations for the next Fed rate hike from late 2016 to either June or July but by quarter end this had pushed out into next year. Late in the quarter, the looming Brexit decision resulted in market uncertainty and the final vote for “Leave” initially upset markets but they bounced strongly with the UK market up 5.3% for the quarter with most of this coming from the +4.4% rise in June. The New Zealand market (S&P/NZX 50 Index) was up a modest 2.3%. In the immediate aftermath of the “Leave” decision the New Zealand equity market fell sharply (-3.4%), although most of this was made back in the final days of the quarter. The Australian market (S&P/ASX 200 Index) was stronger, up 3.94% for the quarter.

The strongest contribution to performance over the quarter was from recent Fund entrant **Aristocrat Leisure** which rose 28.8% 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 data centre **NEXTDC** (+20.1%), the recent addition of fresh milk and infant formula company **A2 Milk** (+23.3%) and retirement operator **Metlifecare** (+14.7%). The Fund’s largest position, **Contact Energy** rose a solid 3.6% over the month and was the best performing generator retailer over the period.

A2 Milk, Aristocrat Leisure, Fisher & Paykel Healthcare, Sky City, Restaurant Brands and **Investore** were added to the portfolio over the quarter. Inter-quarter trades were also made in Westpac and Tegel but these stocks were not held at quarter end. The Fund finished the month with a higher than normal seventeen stock holdings.

On the economic news front, the release of the Budget provided surprisingly robust news on the state of the New Zealand economy. The NZ dollar rose 6.08% against the Australian dollar detracting from Fund performance due to Australian dollar investments currently being unhedged. Against the US dollar, the NZ dollar rose 3.0% during the quarter with one of the consequences seen as most likely from the UK Brexit vote is for the US Federal Reserve to be on hold for an extended period. While the RBNZ still has concerns that lower interest rate settings will further drive recent momentum in housing activity, recent moves in the NZ dollar will not be welcomed and may see the RBNZ cut rates by 25 basis points to 2.0% at their 11 August MPS in spite of the local economy not appearing to need further stimulus.

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