

Nikko AM Wholesale Concentrated Equity Fund

Fund manager

Nikko Asset Management New Zealand Limited (Nikko AM NZ).

In New Zealand we actively manages around 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 NZ'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 Portfolio Investment Entity (PIE) which is priced daily. Investors 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 IR and investors on an annual basis.

Distributions

Generally on calendar quarters, or at any date for any period determined 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	5.18%	0.60%	4.58%	6.55%	6.29%
3 mths	7.77%	1.78%	5.99%	7.90%	6.88%
6 mths	18.34%	3.58%	14.77%	19.76%	13.67%
1 year	19.97%	7.54%	12.43%	25.59%	2.37%
2 yrs(pa)	24.21%	8.00%	16.22%	20.84%	4.01%
3 yrs(pa)	21.59%	7.90%	13.69%	18.94%	8.03%
5 yrs (pa)	18.54%	7.74%	10.79%	18.26%	9.60%
10 yrs pa)	12.78%	8.97%	3.82%	9.00%	5.69%

Fund size

NZ\$88 million

Contribution to performance (absolute)

What helped	What hurt
Aristocrat Leisure	EROAD Limited
Infratil Limited	Airwork Holdings Limited
Contact Energy	Restaurant Brands Limited

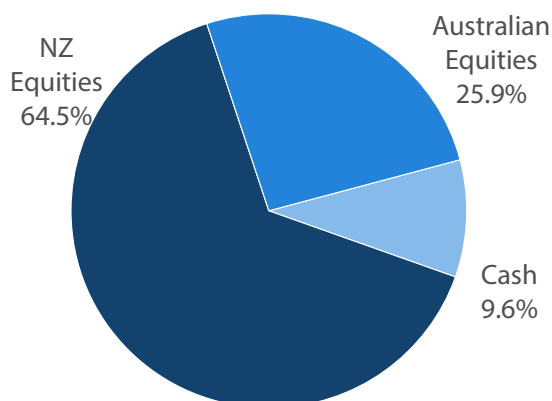
Top 5 holdings

Security	Sector
Contact Energy	Utilities
Aristocrat Leisure	Consumer Discretionary
Metlife Care	Healthcare
Infratil	Utilities
Japara Healthcare	Healthcare
Number of holdings	16

Hedging

ASX exposure range	0 – 100%
Benchmark exposure	0%
Actual AUD exposure	25.9%

Asset allocation



Compliance

The Fund complied with its investment mandate during the month

Commentary

The New Zealand equity market performed strongly over the month of July returning 6.55% (as represented by the S&P / NZX50 Index) making for a solid outperformance against global markets over the month and year-to-date. Markets were impacted by the Brexit referendum but bounced back quickly afterward. The rebound came as investors viewed additional monetary policy globally would support risk assets in general and equity markets more specifically and by a stronger than expected US reporting season. The Australian market was strong up 6.29% (S&P ASX200 Index) while the US and the UK were up 3.56% and 3.38% respectively. Many markets hit all-time highs during the period. The rally in equities went hand in hand with a significant move lower in bond yields as the NZ 10-year Government bond yield finished the month on its lows at 2.20%, down some 0.15% over the month, driven by the RBNZ signaling a likely OCR cut in August.

The Fund performed strongly for the month rising 5.18% gross of fees and tax. The Fund, however, struggled to match the performance of the NZX50 with the strength in two large capitalisation stocks not owned - Spark (SPK) and Auckland Airport (AIA), contributing strongly to the index performance, rising +11.1% and +13.5% respectively. In spite of this, a recent addition to the Fund **Aristocrat Leisure** (ALL) helped as it continued its good run of performance posting 16.4% return for the month as their earnings update driven by market share gains in key Australian and US markets drove results. Another recent addition, **Sky City** (SKC) performed soundly +10.70% aiding returns. **Restaurant Brands** (RBD) and **Metlifecare** (MET) continued to trade higher underperformed the strong market and hence detracted relative value. **NZ Refining** (NZR) detracted from performance as the stock traded flat for the month.

The manager sold two names from the Fund over the month being Summerset (SUM) and Fletcher Building (FBU) and traded another Investore (IPL). IPL a listed property operator with a solid yield traded 9% higher post IPO and the manager sold the stock. Three stocks were introduced into the Fund over the month being **Aconex** (ACX), **Pacific Edge** (PEB) and **Mainfreight** (MFT). ACX is a global collaborative SaaS platform that helps clients manage construction projects and have an enviable position in some of the largest construction firms worldwide. The cancer testing biomedical company PEB was added with penetration opportunities potentially crystallising this coming year after trials have completed.

On the economic front, currencies were volatile over the month with the NZD falling 0.82% against the AUD but rising 1.1% against the USD.

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