

Nikko AM Wholesale Concentrated Equity Fund

Fund manager

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

In New Zealand we actively manage 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	-2.87%	0.58%	-3.45%	0.69%	-1.55%
3 mths	-0.81%	1.77%	-2.58%	5.20%	2.07%
6 mths	14.20%	3.58%	10.62%	19.38%	13.91%
1 year	18.57%	7.46%	11.11%	32.37%	9.30%
2 yrs (pa)	22.70%	7.94%	14.76%	20.61%	2.88%
3 yrs (pa)	20.22%	7.89%	12.33%	19.19%	6.59%
5 yrs (pa)	18.28%	7.74%	10.54%	18.89%	9.68%
10 yrs (pa)	12.49%	8.92%	3.57%	9.26%	5.17%

Fund size

NZ\$86 million

Contribution to performance (absolute)

What helped	What hurt
Metlifecare (MET)	Japara Healthcare (JHC)
EROAD (ERD)	Aristocrat Leisure (ALL)
Metro Performance (MPG)	Aconex (ACX)

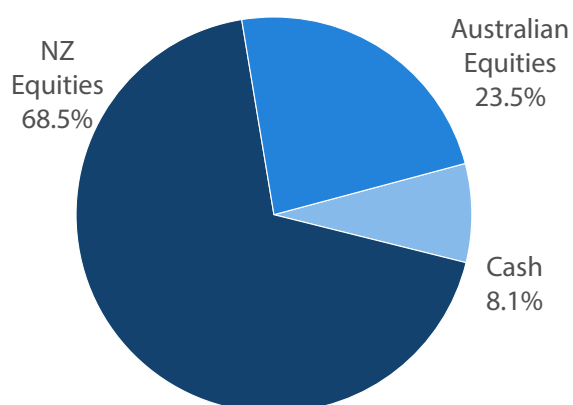
Top 5 holdings

Security	Sector
Contact Energy	Utilities
Metlifecare	Healthcare
Infratil	Utilities
Aristocrat Leisure	Consumer Discretionary
Japara Healthcare	Healthcare
Number of holdings	15

Hedging

ASX exposure range	0 – 100%
Benchmark exposure	0%
Actual AUD exposure	28.9%

Asset allocation



Commentary

Following a sharp rally over July, the S&P/NZX 50 Gross Index rose 0.69% in August 2016 with ‘small caps’ outperforming leaders. The S&P/ASX200 Accumulation Index, S&P500 and FTSE100 returned -1.6%, +0.1% and +1.7% respectively in local currencies. Most indices performed poorly leading into the end of the month. On an annual basis, the NZX 50 Index has recorded an impressive 30.8% rise with the most recent earnings season generally providing good news. Results were in line with expectations with increased dividends continuing to be the main theme.

In economic news, most data released over August suggested continued momentum in the New Zealand economy driven by strong migration, construction and tourism activity. This has been supported by the RBNZ reducing the OCR by 0.25% to 2.00% at their August Monetary Policy Statement (MPS). Data appears to be suggesting a year-on-year growth rate of 3.3% with relatively muted inflation as food prices continue to fall.

The RBNZ continued with an explicit easing bias suggesting “further policy easing will be required to ensure that future inflation settles near the middle of the target range” and as such the market is expecting two additional OCR cuts in the next six months bottoming out at 1.5%. Currencies were volatile over the month with the NZD rising 1.73% against the AUD and up 0.82% against the USD.

The Fund performed poorly for the month falling 2.87% gross of fees and tax. The Fund struggled to match the performance of the NZX50 with the strength of Fletcher Builder (FBU) and poor performance from a number of owned stocks. **Japara Healthcare (JHC)** fell 18.4% after continuing concerns for government funding, a below expectations outlook in its result and big misses from other sector companies results. Two other stocks – **Aristocrat Leisure (ALL)**; -6.88% and **Aconex (ACX)**; -21.4% – gave up recent strength detracting from performance.

On the positive side, the Fund’s second largest position, **Metlifecare (MET)**, continued to trade higher, up 8.16% and EROAD was up 11.4% for the month.

Four names were sold from the Fund over the month – data centre operator NEXTDC (NXT), Fisher and Paykel Healthcare (FPH), Airworks (AWK) and Sky City Entertainment. Two stocks were introduced into the Fund – **Fonterra Shareholders Fund (FSF)** and **PropertyLink Group (PLG)**. The PLG IPO was poor and the manager continued to add to the name upon listing.

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

Compliance

The Fund complied with its investment mandate during the month