

# 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 Prescribed Investor 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	0.48%	0.56%	-0.08%	-0.02%	0.48%
3 mths	2.65%	1.75%	0.91%	7.26%	5.14%
6 mths	4.79%	3.54%	1.25%	9.72%	9.29%
1 year	19.85%	7.39%	12.45%	33.15%	13.17%
2 yrs(pa)	22.20%	7.88%	14.33%	19.91%	6.02%
3 yrs(pa)	18.41%	7.87%	10.54%	17.34%	5.99%
5 yrs (pa)	18.71%	7.73%	10.99%	18.63%	11.19%
10 yrs pa)	12.34%	8.87%	3.47%	8.98%	5.09%

### Fund size

NZ\$86 million

### Contribution to performance (absolute)

What helped	What hurt
Aristocrat Leisure	Japara Healthcare
Metlifecare Limited	Property Link Group
Metro Performance Glass	Eroad Limited

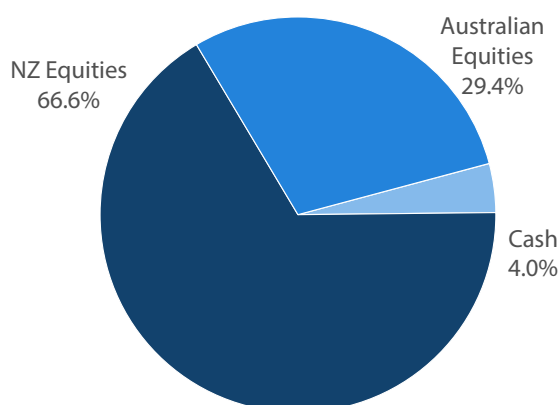
### Top 5 holdings

Security	Sector
Contact Energy	Utilities
Metlifecare Ltd	Healthcare
Infratil Limited	Utilities
Aristocrat Leisure	Consumer discretionary
Japara Healthcare	Healthcare
<b>Number of holdings</b>	<b>17</b>

### Hedging

ASX exposure range	0 – 100%
Benchmark exposure	0%
Actual AUD exposure	29.4%

### Asset allocation



### Commentary

Following a sharp rally over July, the S&P/NZX 50 Gross Index rose +0.69% in August and was flat in September to end the month as one of the strongest performing markets globally over the quarter. The S&P/NZX 50 Index Gross (with imps) rose 7.26% for the quarter. The S&P/ASX200 Accumulation Index, S&P500 and FTSE100 returning +5.1%, +3.3% and +6.1% respectively in local currencies. The NZX 50 index on a year-to-date basis has recorded an impressive 17.6% rise.

In economic news, recent quarterly data (for June) showed economic growth gaining momentum and is now above its long-term trends. GDP growth rose to 3.6% year-on-year to the end of June and above that seen for the year to March 2016 of 3.0%. Recent outperformance has come from the construction and services sectors both continuing to benefit from the sustained period of tourism and migration data. Migration numbers hit an all-time high over August aiding robust house price inflation. Currencies were volatile over the month with the NZD falling 0.63% against the AUD, mildly aiding the Fund's unhedged positions, but up 2.3% against the USD over the quarter.

The Fund produced a solid return of 2.65% for the quarter but on a relative basis struggled to match the relentless rise of the NZ market. Strength of NZX50 members with large index weights including Fletcher Building (FBU +27.8% for the quarter), Auckland Airport (AIA +14.76%), TradeMe (TME +23.67%) when not held contributed to the under performance against the index. Also hurting performance was Japara Healthcare (JHC) which fell 17.2% after continuing concerns for Government funding, a below expectations outlook in its result and big misses from other sector companies results. On the positive side, Aristocrat Leisure (ALL) rose 15.3%, Metlifecare (MET) rose 13.7% along with Metro Performance Glass (MPG) rose 21.68%, before it was sold, all positively contributed to performance.

The manager was busy over the quarter with a number of names sold including NEXTDC (NXT), Fisher and Paykel Healthcare (FPH), Airworks (AWK), Metro Performance Glass (MPG), Fletcher Building (FBU), Summerset (SUM) and Investore (IPL). New additions to the Fund over the auarter included Fonterra (FSF), PropertyLink Group (PLG), Aconex (ACX), Comvita (CVT) and Pacific Edge (PEB).

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

### Compliance

The Fund complied with its investment mandate during the month