

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	-4.67%	0.58%	-5.25%	-5.44%	-2.15%
3 mths	-6.96%	1.73%	-8.69%	-4.81%	-3.20%
6 mths	0.26%	3.54%	-3.27%	2.71%	3.46%
1 year	10.76%	7.33%	3.43%	17.64%	6.11%
2 yrs(pa)	17.53%	7.81%	9.72%	15.11%	2.63%
3 yrs(pa)	15.71%	7.86%	7.85%	13.78%	3.87%
5 yrs (pa)	17.25%	7.72%	9.53%	17.37%	9.17%
10 yrs pa)	11.50%	8.83%	2.68%	7.79%	4.39%

Fund size

NZ\$83 million

Contribution to performance (absolute)

What helped	What hurt
Mainfreight	Aconex Limited
Property Link	MetlifeCare
A2 Milk	Infratil Limited

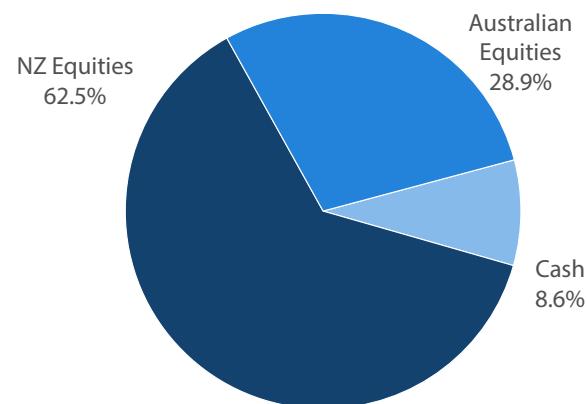
Top 5 holdings

Security	Sector
Contact Energy	Utilities
Infratil Limited	Utilities
Metlife Care	Healthcare
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

Global equity markets were mixed in October with Asian and European markets generally up while the US and Australasian markets were down. The MSCI World Index 100% hedged to NZD ended the month down 0.5%. With the US election, the prospect of the US Federal Reserve raising rates before the end of the year and offshore selling, the NZ Equity market was down 5.44% - following on from posting a historic high on 7 September of 7,571. The month was the worst month since 2010 and was the sixth worst monthly performance of the NZX50 Index. The NZ equity market closed down 8.1% from its peak and underperformed against the Australian market with the S&P/ASX 200 index down only 2.15% for the month with the Australian market led lower by Healthcare (-8.1%) and REITs (-7.4%) sectors. The majority of markets suffered from a rise in bond yields and a steepening in global yield curves led by the US, which saw 10-year bond yields rise from 1.59% to 1.85% hurting yield sensitive sectors and markets and bond markets which had their worst monthly return since May 2013 (the taper tantrum).

Currency markets were dominated by a strong USD as expectations around further Fed tightening began to increase. The NZD finished the month down 1.1% against the AUD (closing at 0.9399) and down 1.85% against the USD (to \$0.7151). Oil was the big mover where Brent Oil peaked intra month at US\$52.95 but finished down at US\$46.97 and Gold was weaker by 4% over the month. The tone of domestic economic data releases over October continued to point to strong GDP growth of around 3.0% to 3.5% while inflationary pressures remained muted.

The Fund fell in absolute terms, but performed well against the wider market outperforming the S&P/NZX 50 Index by 0.77%. The Fund's holdings in Mainfreight (**MFT**) which rose 4.6% along with PropertyLink (**PLG**) +1.7% and A2 Milk (**ATM**) up 1.6% aided relative performance. Detractors of absolute performance included Aconex (**ACX**) and Metlifecare (**MET**). The portfolio manager removed Sky City (**SKC**) from the portfolio during the month after a relatively successful trade. At month end cash was 8.6%, up from 1.5% at the end of September as the portfolio manager sold down the Fund's position in Fonterra (**FSF**). Cash was also allocated to mildly up-weighting Convita (**CVT**) and Restaurant Brands (**RBD**).

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

Compliance

The Fund complied with its investment mandate during the month