

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	-0.42%	0.54%	-0.96%	-0.84%	2.99%
3 mths	-4.61%	1.69%	-6.30%	-6.26%	1.26%
6 mths	-5.39%	3.48%	-8.87%	-1.39%	3.36%
1 year	8.21%	7.25%	0.95%	14.40%	10.03%
2 yrs(pa)	15.52%	7.74%	7.77%	14.16%	5.88%
3 yrs(pa)	16.39%	7.84%	8.55%	14.33%	5.35%
5 yrs (pa)	17.76%	7.71%	10.05%	17.59%	10.59%
10 yrs pa)	11.14%	8.78%	2.36%	7.45%	4.46%

Fund size

NZ\$84 million

Contribution to performance (absolute)

What helped	What hurt
a2 Milk Co Ltd	Aconex LTd
NZ Refining Co	Infratil Ltd
Mainfreight Ltd	Aristocrat Leisure

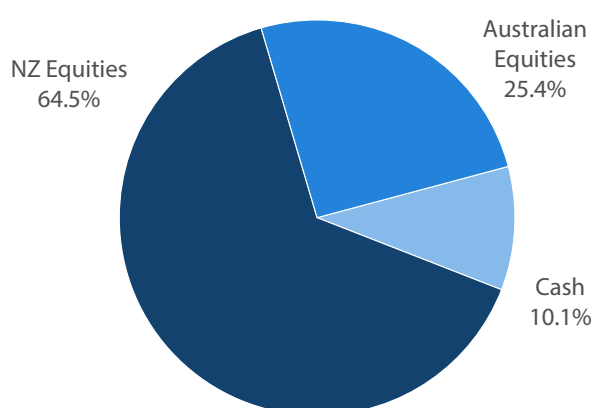
Top 5 holdings

Security	Sector
Contact Energy	Utilities
Metlife Care	Healthcare
Infratil Limited	Utilities
Aristocrat Leisure	Consumer discretionary
Property Link Group	Real estate
Number of holdings	16

Hedging

ASX exposure range	0 – 100%
Benchmark exposure	0%
Actual AUD exposure	25.4%

Asset allocation



Commentary

Equities rebounded and bonds sold off hard on the 'Trump Reflation' trade. Equity markets initially sold off aggressively as news of marginal states were won by Trump but then rallied hard as Trump gave a 'measured' victory speech. Equities continued to rally and bonds sold off for the rest of the month on bullish expectations regarding Trump's program of fiscal stimulus, corporate tax cuts and lessened regulation. Global investors rotated into cyclical and banking stocks while emerging markets underperformed. The US dollar surged as US economic data during the month was strong.

In November the NZX50 fell 0.84% led down by some disappointing company results including Orion Healthcare (OHE -44%) and Tower Insurance (TWR -23%) - neither of which were owned by the Fund. Large caps considerably underperformed the Mid-caps with strength in Consumer Staples, Telecoms and IT. Elsewhere Energy, Health Care and Financial stocks underperformed the benchmark. The economic backdrop has seen solid GDP growth, in the order of 3.5-4.0%, with a modest negative impact from the recent Kaikoura earthquakes. Australian equities rose 3% as measured by the S&P/ASX 200 Index, led by banks and the iron ore price rallying to a 25-month high before falling heavily at the end of the month but nevertheless finished the month 15% higher. Gold fell.

The **a2 Milk Company** (ATM) announced that for the first four months of financial year 2017 revenue had grown by 96% year-on-year and EBITDA had grown 473%, ahead of consensus expectations. ATM shares rose 7.1% on the day of the announcement and 32.5% for the month of November aiding Fund performance. Another strong performer was the **NZ Refining Company** (NZR) which rose 15.2% over the month as refining margins rose and the NZ dollar fell assisting the earnings outlook for the company. **Pacific Edge** (PEB) rose 10.9% for the month. **Fisher and Paykel Healthcare** (FPH) share price continued to slide over the month despite the +26% first-half profit resulting from widened margins. The Portfolio Manager's recent re-introduction of FPH to the portfolio was after significant weakness in the price triggering re-entry. The stock fell because of patent litigation beginning against key competitor Resmed. The stock has fallen 5.4% since average entry price at month end but was 15% off the highs where the Portfolio Manager had sold the name two months back. **Aconex** (ACX) continued to hurt fund performance with the stock down 19.4% for the month.

No new stocks were added or existing names removed from the Fund over the month. The NZD fell 1% against the USD but rose 1.9% against the AUD over the month of November which hurt fund performance.

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

Compliance

The Fund complied with its investment mandate during the month