

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 NZ domiciled 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	-0.64%	0.56%	-1.20%	2.48%	-0.79%
3 mths	0.70%	1.67%	-0.96%	1.44%	6.65%
6 mths	-6.31%	3.42%	-9.73%	-3.44%	3.23%
1 year	10.88%	7.12%	3.76%	15.64%	17.34%
2 yrs(pa)	11.60%	7.59%	4.00%	12.18%	4.95%
3 yrs(pa)	15.88%	7.80%	8.08%	14.55%	7.40%
5 yrs (pa)	17.37%	7.68%	9.69%	17.93%	10.57%
10 yrs pa)	10.01%	8.68%	1.32%	6.92%	4.26%

Fund size

NZ\$86 million

Contribution to performance (absolute)

What helped	What hurt
Infratil	Aconex
Contact Energy	Japara Healthcare
EROAD	Pacific Edge

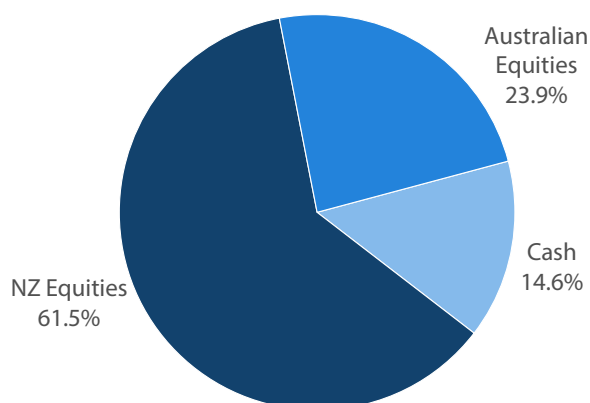
Top 5 holdings

Security	Sector
Infratil Limited	Utilities
Contact Energy	Utilities
Metlife Care	Healthcare
Aristocrat Leisure	Consumer discretionary
Fisher & Paykel Healthcare	Healthcare
Number of holdings	15

Hedging

Australian listed stocks are unhedged at the date of this Fact Sheet.

Asset allocation



Commentary

Equity markets started the year on a positive note with the MSCI World index up 1.6%. All eyes have been on President Trump following his inauguration on January 20th. Early signs are that he will follow through with key pledges with orders signed to withdraw from the Trans Pacific Partnership, immigration bans and plans in motion to commence building a wall between the US and Mexico. The New Zealand equity market, as represented by the S&P/NZX 50 index rose strongly, up 2.5%, as compared to the Australian market which was down 0.8% (S&P/ASX 200 index).

Newly added **Tilt Renewables** (TLT) performed soundly over the month after entry into the fund. The stock rallied 18.6% for the month albeit it was a small position within the portfolio. **EROAD** (ERD) rising 12.5%, **Restaurant Brands** (RBD) up 9.1% and **Infratil** (IFT) +4.4% aided fund performance. In spite of these performances the portfolio lost a little value and underperformed relative to the NZX50 over the month.

The underperformance of the fund was primarily the result of SaaS software firm **Aconex** (ACX) which guided to revenue being 8% lower than previous guidance. While revenue guidance still implies circa +10% organic growth rate at the midpoint vs +20% under previous guidance (and +29% in the 2016 result), the cut to earnings guidance was more dramatic. Earnings are expected to be circa 50% weaker than previously forecast which lead to a share price fall of circa 40%. We remain attracted to the Aconex business model and their blue chip client base and note the stock has recovered somewhat from its lows.

Cash within the fund rose over the month as the Manager reduced holdings in **Contact Energy** (CEN) and **NZ Refining** (NZR) after strong runs. At month end cash represented 14.6% of the fund. The Portfolio Manager started the process of adding diversified Australian listed property **Mirvac Group** (MGR) into the portfolio. Mirvac owns and manages a selection of mostly office, but also retail and industrial property assets, as well as developing residential and commercial projects. The stock's introduction coincides with its recent sell off as yield names were under pressure from rising bond yields and the 'Trump' effect.

In economic news, the New Zealand economy continued to show evidence that it is growing around 3.0-3.5% year-on-year suggesting solid earnings growth for many companies. The drivers remained the same with tourism, migration and a strong construction sector supporting performance. The NZD rose 0.58% over the month against the Australian dollar and an impressive 5.6% against the USD.

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

Compliance

The Fund complied with its investment mandate during the month.