

# 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 that 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	5.30%	0.50%	4.80%	1.72%	2.25%
3 mths	6.49%	1.62%	4.87%	4.05%	5.88%
6 mths	1.58%	3.34%	-1.76%	-2.46%	7.22%
1 year	16.00%	7.04%	8.96%	16.44%	22.13%
2 yrs(pa)	12.69%	7.53%	5.16%	11.84%	2.65%
3 yrs(pa)	17.46%	7.78%	9.68%	14.31%	6.47%
5 yrs (pa)	18.73%	7.67%	11.07%	18.13%	10.64%
10 yrs pa)	10.64%	8.63%	2.01%	7.39%	4.32%

### Fund size

NZ\$90 million

### Contribution to performance (absolute)

What helped	What hurt
Aristocrat Leisure	Japara Healthcare
Metlifecare	Restaurant Brands
EROAD Ltd	Tilt Renewables

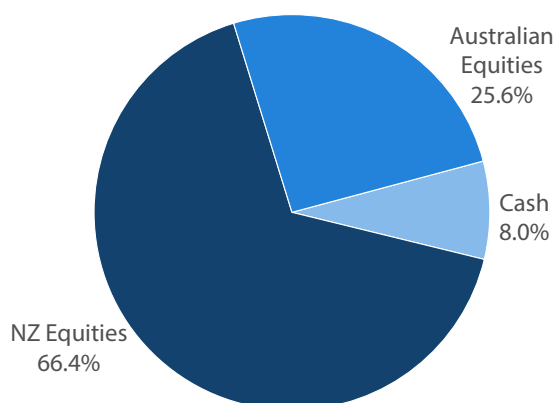
### Top 5 holdings

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

### Hedging

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

### Asset allocation



### Compliance

The Fund complied with its investment mandate during the month.

### Commentary

Equity markets continued their positive start for the year with the MSCI World index returning 2.9%. President Trump was again in the forefront as markets anticipated the speech to Congress and definitive policy announcements as opposed to tweets. The New Zealand equity market, as represented by the S&P/NZX 50 index rose strongly up 1.7% but lagging the Australian market which was up 2.2% (S&P/ASX 200 index). Further afield the UK market was up 2.3% and the US (S&P500) was up 3.7%.

The Fund performed strongly during February returning 5.3% well in excess of all relevant indices. The large position in **Aristocrat Leisure** (ALL) added value as the stock rallied after the company confirmed their guidance range, as we expected at the AGM. The stock rallied 8.6% over the month. The new CEO Trevor Croker confirmed normalised profit growth of 20% to 30% for the current year allaying fears about the company and why Jamie Odell resigned.

**Metlifecare** (MET) delivered strong asset revaluations and reported profits up 31% for the half year. The stock increased ~11% on the announcement and contributed very positively to performance as the stock represented the largest position in the Fund. The stock continued to rally in line with the net asset backing of the investments. **Contact Energy** (CEN) reported profits in line with our expectations and pleasingly with improving operating statistics. The stock reacted positively to these metrics and management comments about debt reduction that may lead to higher dividends later this year and hence contributed positively to the Fund’s performance. The best performing stock in the Fund over the month was **EROAD** (ERD) which rose 19.4% as it released its electronic logging device product in the US market. **Japara Healthcare** (JHC) detracted from performance after reporting earnings and guidance which disappointed the market. The earning miss came from their newly acquired Profke facilities however we remain positive about the medium term earnings and investment proposition.

One new stock was added to the Fund after weakness being NZ’s largest building and materials company **Fletcher Building** (FBU). The stock had sold off recent highs of close to \$11 to \$9.50 on a poor result where it signalled losses on one building contract before a moderate position was taken on valuation grounds along with earnings support with the considerable work in progress and a solid demand for housing. During the month the Fund’s position in Australian listed property company **Mirvac Group** (MGR) was sold following a near 8% return in two weeks. Over the month the NZD fell against the AUD by 2.7% aiding the funds unhedged investments in Australia.

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