

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	4.51%	0.56%	3.96%	0.82%	3.32%
3 mths	9.35%	1.62%	7.73%	5.08%	4.82%
6 mths	5.65%	3.34%	2.32%	-1.64%	10.25%
1 year	10.71%	6.99%	3.72%	7.92%	20.49%
2 yrs(pa)	16.16%	7.45%	8.70%	12.49%	4.37%
3 yrs(pa)	18.57%	7.75%	10.81%	13.38%	7.53%
5 yrs (pa)	19.10%	7.65%	11.44%	16.94%	11.10%
10 yrs pa)	10.71%	8.58%	2.13%	7.25%	4.32%

Fund size

NZ\$93 million

Contribution to performance (absolute)

What helped	What hurt
Aristocrat Leisure	Aconex
A2 Milk	Fletcher Building
Contact Energy	Japara Healthcare

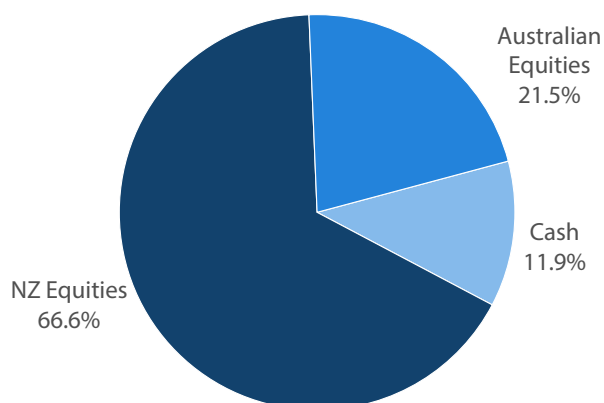
Top 5 holdings

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

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

The S&P/NZX 50 Index rose +0.82% in March 2017 with large caps stocks underperforming mid-caps and small-caps. Off-shore markets, S&P/ASX200 Accumulation, S&P500 and FTSE100 returned +3.3%, +0.1% and +1.1% respectively (in local currencies). For the quarter, the S&P/NZX 50 returned an impressive but in-line with global markets +5.08% as compared to +4.82% for the S&P/ASX200 Accumulation and S&P500 +5.53%. The main driver for the quarters performance was the continued 'Trump rally' driven by his 'tweeted' policies impacting investors thoughts on re-inflation, reduced regulation, capital spending and the prospect of tax cuts for many including companies. Interest rates around the world rose with the Fed raising rates as expected and markets were able to absorb this along with the UK triggering Article-50. Generally better than expected economic data and the potential for the ECB to be confident enough to accelerate the reversal of its bond buying programme were also behind the upbeat sentiment.

Over the quarter a small position in Mirvac was bought and sold for an 8% return while **Fletcher Building** (FBU) entered the fund albeit a relatively small position.

By period end cash had built to 11.6% of the fund as positions in **Contact** (CEN), **Infratil** (IFT) and **Aristocrat** (ALL) were reduced countering the increase in **NZ Refining** (NZR) post a partial placement of BP stake (selling down from 20.2% to 10.1%) and **Pacific Edge** (PEB) from a share issue to raise additional monies.

The fund was aided by holding a position in the two top performing stocks in the NZX 50 over the month with **A2 Milk** (ATM) +26.7% and **Comvita** (CVT) +21.5%. For the quarter the fund performed very well in total returns and in relative terms to the NZX50 Index. Total return for the fund was +9.0% for the quarter compared to the +5.08% for the NZX50. For the quarter ATM returned 40.4%. Other positive contributors for the quarter included **EROAD** (ERD) +32.5%, **Aristocrat ALL** +21.9% and **Fisher & Paykel Healthcare** (FPH) +13.85%. Detractors of portfolio performance for the month included FBU post its entry and **Aconex** (ACX). Fletcher Building cut its earnings forecast by \$110 million (~15%) after identifying further losses in its construction division. The underperformance for ACX was primarily the result of the SaaS software firm guiding to revenue being 8% lower than previous guidance.

Currencies remained volatile and saw the NZD fall 4.5% against the AUD but gain 1.04% against the USD. The fall in the NZD against the AUD aided portfolio returns as the fund's exposure to AUD are currently unhedged.

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