

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.

Chapman Tripp – Fund Manager of the Year – Equities



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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.

Performance (NZD gross returns)

	Fund	Bmark	Excess	NZX50	ASX200 A\$
1 mth	-0.66%	0.56%	-1.21%	0.59%	-2.75%
3 mths	5.10%	1.66%	3.44%	3.98%	1.52%
6 mths	11.92%	3.31%	8.61%	8.20%	7.49%
1 year	5.89%	6.91%	-1.02%	6.69%	11.10%
2 yrs(pa)	14.77%	7.31%	7.46%	14.11%	4.14%
3 yrs(pa)	17.53%	7.69%	9.84%	14.19%	6.03%
5 yrs (pa)	19.69%	7.63%	12.06%	17.79%	11.92%
10 yrs pa)	10.49%	8.48%	2.00%	7.07%	3.57%

Fund size

NZ\$93 million

Contribution to performance (absolute)

What helped	What hurt
NZ Refining	Metlifecare
Aristocrat Leisure	Pacific Edge
Infratil Ltd	Fletcher Building

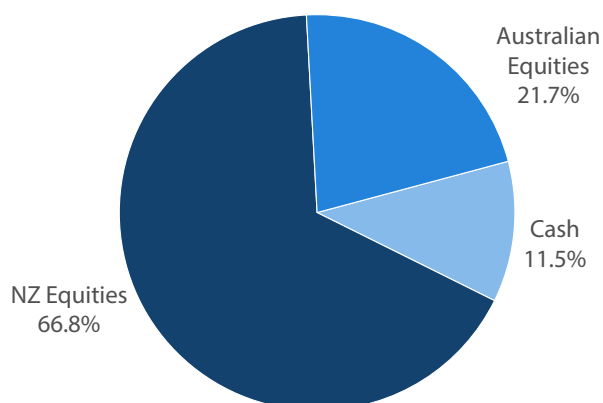
Top 5 holdings

Security	Sector
Metlifecare	Healthcare
Infratil Limited	Utilities
Contact Energy Ltd	Utilities
Property Link Group	Real estate
NZ Refining Coy	Energy
Number of holdings	15

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

Global markets continued to move higher with the MSCI World index up 1.7% and US markets reaching all-time highs with the S&P 500 index up 1.2%. The Australian market was impacted by levies on the banks announced in the Budget which saw the S&P/ASX 200 Financials sector down 9.2%. The broader NZ equity market was up 0.59% as measured by the S&P/NZX 50 index. The Australian market as represented by the S&P/ASX 200 index fell 2.75% with the financial sector having a large impact and retail stocks being affected by Amazon’s impending entry into the Aussie market with retail stocks down 9.3% for the month. This pushed the Aussie market to their largest monthly decline since January 2016.

The fund lagged the NZ equity market for the month, however on a year-to-date basis the fund remains ahead of the S&P/NZX 50 index, 9.6% compared to 8.4% respectively.

Positive contributors to the performance for May included **NZ Refining** (NZR) which rose +8.1% over the month, **Aristocrat** (ALL) +7.5% and **Infratil** (IFT) +3.0%. On the downside, the fund’s position in **Metlifecare** (MET) cost absolute performance from continued flow-on effects from major shareholder, **Infratil** (IFT), who sold down their stake from 19.9% to nil at an 8% discount to market and sentiment started to turn against residential property prices. This saw the stock down 5.5% for the month on top of a similar move the month prior. ALL released its first half results with overall sales +22% and earnings +49% after strong North American growth aided. Management reiterated full-year guidance was of 20-30% growth in net earnings with further investment in R&D.

The fund ended the month with 15 stocks after selling Tilt Renewables (TLT) and Comvita (CVT). Currencies remained volatile and saw the NZD rising 4.07% against the AUD and a +3.38% against the USD. The rise in the NZD against the AUD was a drag on portfolio returns as fund exposures to AUD are currently unhedged.

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