

Nikko AM Wholesale Plus Australian Share Income Fund

Manager Profile

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Underlying Fund Manager Overview

Nikko AM Wholesale Plus Australia Share Income Fund ('Fund') invests in the Nikko AM Australian Share Income Fund ('Underlying Fund'). Nikko AM Limited ('Nikko AM') is the investment manager of the Underlying Fund.

Nikko AM aims to offer investors the benefits of extensive global resources combined with the local expertise and long-standing experience of its Sydney-based investment teams, with a history dating back to 1989. Today, the company manages approximately \$12.9b in assets for retail and institutional clients across Australia.¹

With a track record of over twenty five years in Australian equities and more than twenty years' experience in managing fixed income assets, Nikko AM prides itself on its many years of accumulated market intelligence. Nikko AM believes in active management and high conviction investing backed by intensive research conducted by experienced, cohesive investment teams. Its investment teams strive to achieve strong investment performance for clients.

Investment Philosophy and Style

For Australian equities, Nikko AM believes that the best results in the future come from identifying value in the market today. This belief is based on:

- Stocks: all stocks have an intrinsic value that with diligent research may be assessed and compared.
- Value: whatever the direction of the share market, Nikko AM believes there are always stocks that represent better value than others, and better value than the market as a whole.
- Opportunities: inefficiencies in the share market, mainly due to human behaviour, create buying opportunities where the prices of some stocks fail to reflect what Nikko AM believes is their true value.
- Research: identifying those opportunities requires fundamental analysis, involving hard work, skill, experience and judgement.

Investment Process

Nikko AM believes the combination of an 'intrinsic value' philosophy and a dedication to objectively-based research, whilst incorporating what it considers sound risk management, provides a strong basis for good long-term returns.

Nikko AM uses its own internal research process called Comparative Value Analysis (CVA) to identify companies whose shares may represent good value. The process involves extensive fundamental analysis of Australian companies.

Whilst stock picking via company research is a critical element of Nikko AM's process, portfolio construction is also important. The team seeks to find attractive intrinsic value investments which offer the best outcome between risk and expected return, given the return objectives and stated risk profile of the Underlying Fund.

The Team applies a liquidity screen on all stocks listed in the S&P/ASX 200 Index. The stocks that meet the liquidity requirements are then screened for value and quality in order to help prioritise research. The team then researches, models and values a universe of approximately 150 companies.

The end product of the CVA research process is an Internal Rate of Return (IRR) for each stock over a three-year forecast period comprising estimated grossed-up dividends including franking credits and forecast terminal price in three years. These companies are then ranked in an ordinal ranking of IRR which drives the buy/sell process. The team will generally invest in value propositions where the IRR is very high.

Before selecting stocks, a quality and risk assessment is made by portfolio managers. This takes into account short-term earnings, balance sheet and structural risks, as well as optionality and cycle timing. The purpose is to make better buy/sell decisions and reduce the risk of value traps.

Investment Strategy

The Fund² aims to provide a tax-effective income stream that exceeds the dividend yield of the S&P/ASX 200 Accumulation Index (grossed up for franking credits) by 2% p.a. over rolling five-year periods, before fees, expenses and tax, plus the potential for capital growth over the long term.

The Underlying Fund invests in a diversified portfolio comprising 40-70 Australian shares that aim to grow their dividends and deliver capital growth. The Fund has a strong emphasis on tax effectiveness, focusing on franked income, off-market share buy backs and minimising share turnover to keep net realised gains low.

As an intrinsic value manager, the portfolio managers select stocks that present good value with a focus on income-generating assets. The Fund is managed primarily on the basis of expected grossed up dividend yields. Where stocks offer additional potential for capital gains (as measured by the stock's IRR) as well as dividend yield, these may also be selected.

About the Team

Nikko AM has an 11-member Australian equities team with an average of 21 years' industry experience and has been working together as a team for an average of 15 years. The Australian equities team is led by Brad Potter, Head of Australian Equities, who joined Nikko AM in 2002 and has over 31 years industry experience. The team is well resourced, reflecting Nikko AM's strong preference to conduct their own research. The research process recognises the importance of what Nikko AM considers thorough, in-depth analysis. Each analyst covers 15 to 20 stocks in total and specialises in a particular sector, except for financials and resources where there are two to three sector specialists.

Important Information

All investments carry risk. Factors that influence the direction and volatility of your investment are varied and include risks such as market risk and security specific risk. Please refer to the 'Risks of managed investment schemes' of the PDS for the Fund for further details.

Small differences in investment performance and fees and costs can have a substantial impact on your long term returns. Please refer to the 'Fees and costs' section of the PDS for the Fund for more information.

¹ As at 31 December 2020

² Refer to the Product Disclosure Statement ('PDS') for the Fund for more information.



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WFSL is the responsible entity for the Nikko AM Wholesale Plus Australian Share Income Fund ARSN 622 486 917 ('Fund'). A Product Disclosure Statement ('PDS') is available for the Fund and can be obtained by calling 1800 287 873 or by visiting www.bt.com.au/wholesaleplus. The Financial Services Guide ('FSG') for WFSL can also be obtained via the Product Disclosure Statement page on bt.com.au. You should obtain and consider the PDS for the Fund and the FSG before deciding whether to acquire, continue to hold or dispose of units in the Fund.

The Fund invests in the Nikko AM Australian Share Income Fund ARSN 133 980 819 APIR TYN0038AU ('Underlying Fund'). Nikko Asset Management Australia Limited ABN 34 002 542 038 AFSL 229664 is the responsible entity of the Underlying Fund. Nikko AM Limited ABN 99 003 376 252 AFSL 237563 is the investment manager ('Manager') of the Underlying Fund. The Manager has consented to the statements pertaining to it in this document, in the form and context in which they appear and has not withdrawn its consent as at the date this document was published. The information in this document may contain material provided by third parties derived from sources believed to be accurate as at the date this document was published. While such material is published with necessary permission, no company in the Westpac Group accepts any responsibility for the accuracy or completeness of, or endorses any such material. Except where contrary to law, we intend by this notice to exclude liability for this material. Past performance is not an indicator of future performance.

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Information current as of 31 December 2020

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