

NIKKO AM AUSTRALASIAN SMALL COMPANIES FUND

Monthly Fact Sheet

30 November 2016



Investment objective

The objective of the Fund is to construct a portfolio of permitted investments that outperform the Fund's benchmark return by 3.0% per annum over a rolling three year period before fees, expenses and taxes.

Benchmark

Composite of:

S&P/ASX Small Ordinaries Accumulation Index expressed in NZD (unhedged)	70.0%
S&P/NZX SmallCap Index gross with Imputation	25.0%
S&P/NZX Call Rate Deposit Index	5.0%

Fund description

The Fund aims to provide investors with an exposure to New Zealand and Australian "emerging leaders" securities from an actively managed investment portfolio with potential for growth of income and capital.

The Fund gains its investment exposure by investing into the Nikko AM Wholesale Australasian Small Companies Fund which is managed by the Nikko AM NZ Equity team.

Distributions

Semi-annual. Last business days of March and September.

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%. Currency hedging contracts are held in the Nikko AM Wholesale Australasian Small Companies Fund.

Management fees and other charges

A management fee of 1.00% per annum calculated as a percentage of the net asset value of the Fund will be deducted from the Fund. This fee is calculated daily and is payable to Nikko AM.

Nikko AM may also recover expenses (including the Trustee fee) from the Fund up to a maximum of 0.25% per annum of the Fund's net asset value. As at the time of publication these expenses are estimated to be 0.25% per annum.

Performance fee

We charge a performance fee of 10% of gains above the hurdle rate. The "hurdle rate" is the minimum return the Fund must achieve before being able to charge a performance fee. The hurdle for the Fund is 3% above the Australasian Small Companies Composite Index over a 12 month financial period after deducting our management fee and expenses. Performance-based fees are payable only if the Fund's performance exceeds the high water mark. The high water mark for the Fund is equal to the performance level of the Fund at the end of the last financial period when a performance fee was charged. This means if the Fund loses value over one or more financial periods, Nikko AM NZ must achieve investment returns above the high water mark for the Fund before receiving another performance-based fee. The high water mark cannot be reset unless the Fund's performance exceeds that mark. The performance fee for each financial period is accrued daily in the unit price and paid at the end of the financial period. A financial period for the Fund is 12 months ending 31 March in each year. The performance fee does not have a maximum limit.

Buy/sell spread

0.35% / 0.35%

Strategic asset allocation

Asset class	Range
Australasian equities, cash and cash equivalents, and listed property via the Nikko AM Wholesale Australasian Small Companies Fund	95% – 100%
Cash on call for investor transactions	0% – 5%

Investment ranges and benchmark weights

Asset class	Target	Range
Australian Smaller Equities	70%	50% ⇄ 90%
New Zealand Smaller Equities	25%	10% ⇄ 40%
Cash and cash equivalents	5%	0% ⇄ 10%

Restrictions

Nikko AM Wholesale Australasian Small Companies Fund:

- Maximum 8% exposure to any one security.
- Maximum aggregate exposure of 40% to the top five investments.
- Securities included in the S&P/ASX 100 Index and/or the NZX 10 Index are not permitted.

Full details of the permitted investments and restrictions are outlined in the SIPO.

Performance

(NZD returns; before tax, after fees and expenses)

1 month	3 months	6 months	1 year
-6.43%	-9.01%	-11.26%	-6.43%
2 years (pa)	3 years (pa)	5 years (pa)	Inception (pa)*
6.60%	5.81%	10.47%	8.61%

* August 2009

Contributors to performance – month

What helped	What hurt
A2 Milk	CSG Ltd
NZ Refining Co	Adairs Ltd
Pacific Edge	Rhipe Ltd

Asset allocation (% of fund)

New Zealand equities	29.0%
Australian equities	67.0%
Cash	4.0%

Top 5 holdings

Security	Sector
Restaurant Brands	Consumer discretionary
Pacific Edge	Health care
Impedimed Ltd	Health care
Ingenia Communities	Real estate
Tilt Renewables	Utilities
Number of holdings	46

Commentary

Equities rebounded and bonds sold off hard on the 'Trump Reflation' trade. Equity markets had initially sold off aggressively as news of marginal states were won by Trump but then rallied hard as Trump gave a 'measured' victory speech. Equities continued to rally and bonds sold off for the rest of the month on bullish expectations regarding Trump's program of fiscal stimulus, corporate tax cuts and lessened regulation. Global investors rotated into cyclical and banking stocks while emerging markets underperformed. The US dollar surged as US economic data during the month was strong.

In November the NZX50 fell 0.84% led down by some disappointing company results including Orion Healthcare (OHE -44%) and Tower Insurance (TWR -23%) neither of which were owned by the Fund. Large-caps considerably underperformed the Mid-caps with strength in Consumer Staples, Telecoms and IT. Elsewhere Energy, Health Care and Financial stocks underperformed the benchmark. The economic backdrop has seen solid GDP growth - in the order of 3.5-4.0%, with a modest negative impact from the recent Kaikoura earthquakes. Australian equities rose 3% as measured by the S&P/ASX 200 Index, led by banks and the iron ore price rallying to a 25-month high before falling heavily at the end of the month but nevertheless finished the month 15% higher. Gold fell.

The **a2 Milk Company** (ATM) announced that for the first four months of their financial year 2017 revenue had grown by 96% year-on-year and EBITDA had grown 473%, ahead of consensus expectations. ATM shares rose 7.1% on the day of the announcement and 32.5% for the month of November aiding fund performance. Another strong performer was the **NZ Refining Company** (NZR) which rose 15.2% over the month as refining margins rose and the NZ dollar fell assisting the earnings outlook for the company. **Pacific Edge** (PEB) rose 10.9% for the month. On the downside a number of companies disappointed with tech company **CSG** falling 46%, retailer **Adairs** (ADH) down 36% and software applications company **Rhipe** (RHP) down 30%.

Chorus (CNU) was sold from the Fund after gaining solid ground over the past few months since its entry. **Metro Performance Glass** (MPG) was reintroduced after a sell-off in the stock along with Trustpower demerger candidate **Tilt Renewables** (TLT).

The NZD fell 1% against the USD but rose 1.9% against the AUD over the month of November which hurt fund performance.

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

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