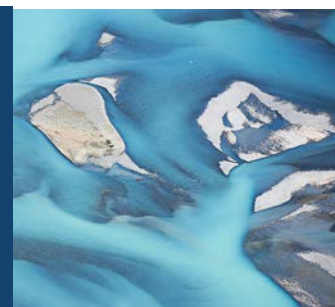


NIKKO AM AUSTRALASIAN SMALL COMPANIES FUND

Monthly Fact Sheet

31 December 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
1.76%	-7.26%	-4.69%	-3.86%

2 years (pa)	3 years (pa)	5 years (pa)	Inception (pa)*
8.61%	6.89%	11.93%	8.77%

* August 2009

Contributors to performance – month

What helped	What hurt
CoverMore Group	Touchcorp
Pacific Edge	CSG Ltd
A2 Milk	Adairs Ltd

Asset allocation (% of fund)

New Zealand equities	27.0%
Australian equities	72.6%
Cash	0.4%

Top 5 holdings

Security	Sector
Cover More Group	Financials
Pacific Edge	Health care
Restaurant Brands	Consumer discretionary
Property Link Group	Real estate
Ingenia Communities	Real estate
Number of holdings	46

Commentary

There were a number of significant events driving markets over the quarter including the against the odds US election victory by Donald Trump and the US Federal Reserve raising the Federal Funds Target Rate. Bond Yields were the big mover over the quarter with the US 10-year yield up 85 basis points and the New Zealand 10-year up close to 110 basis points. While it had no immediate impact on markets, the resignation of John Key as Prime Minister did bring to mind the uncertainty around the New Zealand Election next year and policies that will be promoted that might impact on the domestic market. The New Zealand and Australian small capitalisation stocks performed quite differently to the broader markets over the quarter. The S&P/NZX Small Cap index was up 0.1% compared to the S&P/NZX 50 index which was down 6.4% while the S&P/ASX Small Ordinaries was down 2.5% compared to the S&P/ASX 200 index which was up 5.2%.

The Fund returned (gross) -6.87% for the quarter which was below benchmark.

Strong performers over the quarter included **Cover-More Group** (CVO), **Pacific Edge** (PEB) and **A2 Milk** (ATM). CVO rose 31.3% (in AUD) over the period following a takeover offer in December which was 48% above the previous closing price. PEB rose 28.3%, recovering from a poor performance in the previous quarter, while ATM continues to be quite volatile but end the period up 22.9%. Following negative trading updates announced by other participants in the China infant formula market, ATM reassured investors by reiterating its key financials and statements outlined at the company's AGM in November. Poor performing stocks held over the quarter included **Touchcorp** (TCH), **CSG** (CSV) and **Adairs** (ADH). TCH dropped 48.6% (in AUD) following a business update late in December with earnings guidance well below market expectations. CSV also dropped more than 40%, down 43.3% (in AUD) on the back of downgrading its earnings guidance. ADH fell 38.3% (in AUD) following a soft trading update with sales well below the previous year due to a poor read of bedlinen trends leading to stocking unpopular product lines.

Key portfolio changes included adding **Apollo Tourism & Leisure** (ATL), **Automotive Holdings Group** (AHG), **Metro Performance Glass** (MPG), **Murray River Organics** (MRG), **SpeedCast International** (SDA), **Tegel Group** (TGH) and **Vita Group**. Divestments included ADH following its poor update outlined above, Chorus (CNU), Credit Corp (CCP), Fonterra Shareholders Fund (FSF), PWR Holdings (PWH) and Rhipe (RHP).

(bold denotes held in portfolio)

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