

Nikko AM Wholesale Australasian Small Companies 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

May 2012 – a similar portfolio has been operated by Nikko AM NZ since 1996

Investment objective

To construct a portfolio of authorised investments that outperform the Fund's benchmark return by 3.0% per annum over a rolling three year period before fees.

Benchmark

Composite of:

S&P/ASX Small Ordinaries Accumulation Index expressed in NZD (unhedged)	70%
S&P/NZX SmallCap Index Gross with Imputation	25%
S&P/NZX Call Rate Deposit Index	5%

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 will not fit the criteria for trading gains/losses to be excluded. Information is provided to the IR and investors on an annual basis.

Investment process

Nikko AM NZ is an active style neutral manager with a lower risk approach to investment. The small companies' portfolio provides exposure to New Zealand and Australian small companies, otherwise referred to as "emerging leaders". The Fund is skewed to Australian investments and is managed in a manner to provide investors with capital growth and a modest income over a medium investment time frame.

Investment positions are actively managed to provide a moderate risk exposure to a diverse range of companies and sectors, contained within the Australasian small companies market.

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	Composite Index	Excess
1 month	2.38%	2.66%	-0.28%
3 months	-6.87%	-2.55%	-4.32%
6 months	-3.90%	6.41%	-10.31%
1 year	-2.28%	12.36%	-14.64%
2 years (pa)	10.35%	12.09%	-1.74%
3 years (pa)	8.68%	6.68%	2.00%
5 years (pa)	14.30%	4.88%	9.42%
10 years (pa)	7.12%	1.70%	5.42%

* The Nikko AM Wholesale Australasian Small Companies Fund commenced operation in May 2012. Performance returns prior to this date are returns achieved for similar mandated investment funds as reported to various asset consultant's performance surveys.

Fund size

NZ\$5.0 million

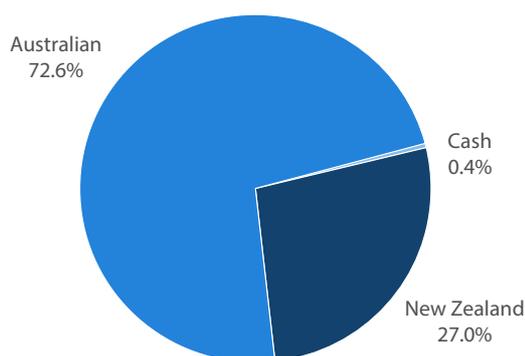
Contribution to performance (absolute)

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

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

Asset allocation



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 -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)

Compliance

The Fund complied with its investment mandate during the month.