

Fund manager

Nikko Asset Management New Zealand Limited (Nikko AM).

Nikko AM is Asia's premier global asset manager and is the only dedicated global investment manager in New Zealand. We actively manage NZ\$4 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).

Portfolio Managers

Stuart Williams, Head of Equities – <1 year tenure. Stuart has wide ranging experience in all aspects of the investment management industry developed over more than 17 years working for ANZ Investments and its predecessors. He has spent eight years performing detailed research and developing investment recommendations on listed companies in both New Zealand and Australia. Stuart has a strong track record in portfolio management of both benchmark relative and high conviction funds. He joined the Auckland-based team in August 2014.

James Lindsay, Senior Portfolio Manager – 16 years tenure. James had a number of years experience in sharebroking prior to becoming an Australasian Equity Analyst at Royal & SunAlliance Asset Management in Wellington. He joined the Auckland-based team in 1999 as an Equity Analyst, before being promoted to the role of Domestic Equities Manager in May 2001 and to Senior Portfolio Manager in April 2012.

Fund launch

July 2009 (a similar portfolio has been operated by Nikko AM since 1996).

Investment objective

To achieve a return that exceeds the benchmark return on an annual basis before fees, over a rolling three year period. The current benchmark return for the Fund is the Australasian Small Companies Composite Index plus 3.0% per annum.

Composite index

The Australasian Small Companies Composite Index is a weighted average of the following three indices:

S&P/ASX Small Ordinaries Accumulation Index	70%
NZX Small Cap Growth Index (with imputation credits)	25%
ANZ NZ Call Index	5%

Investment philosophy

The Fund is managed by Nikko AM's domestic equities team and is designed to provide investors with an exposure to New Zealand and Australian small companies, otherwise referred to as "emerging leaders".

The Fund currently obtains investment exposures by investing in the Nikko AM Wholesale Australasian Small Companies Fund, a wholesale unit trust managed by Nikko AM.

The wholesale 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 unit holders with a moderate risk exposure to a diverse range of companies and sectors, contained within the Australasian small companies market.

Structure and taxation

The Fund vehicle is a Unit Trust and Portfolio Investment Entity (PIE) which is priced daily. Unit holders elect their own Portfolio Investment Rate. Information is provided to the IRD and unit holders on an annual basis.

PIE eligibility

Nikko AM may take any action it deems appropriate to ensure the Fund remains eligible to be a PIE. This includes the ability of Nikko AM to compulsorily withdraw a unit holder's units and pay the proceeds to that unit holder's nominated bank account.

Distributions

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

Hedging policy

Assets and liabilities are hedged to NZD at the discretion of the Manager.

Management fees and other charges

A management fee of 1.00% per annum calculated as a percentage of the gross asset value of the Fund will be calculated and deducted from the Fund. This fee is calculated daily and is payable to Nikko AM. The management fee may be reduced or waived at our discretion.

Nikko AM may recover expenses (including the Trustee fee) up to a maximum of 0.25% per annum from the Fund.

Performance fee

In the Nikko AM Australasian Small Companies Fund, a performance fee is payable to the Manager of an amount not exceeding 10% per annum of gains over and above the benchmark return for the Fund. The benchmark return which must be exceeded is the Australasian Small Companies Composite Index plus 3.0% per annum.

The performance fee is calculated after allowance for the management fee, the Trustee's fee or custodial fees and costs and expenses recovered from the Fund for the relevant Financial Year.

The cumulative performance fee for each Financial Year is accrued and adjusted on a daily basis and paid annually in arrears based on the actual performance of the Fund for that Financial Year. Any amount by which the Fund underperforms the Australasian Small Companies Composite Index (or any other index against which the benchmark return is measured) for any previous Financial Years must be recovered before the performance fee is payable for a Financial Year. Underperformance is calculated before allowance for the management fee, the Trustee's fee or custodial fees and costs and expenses recovered from the Fund for any such previous Financial Years.

Buy/sell spread

0.40%

Trustee

Public Trust

Custodian

Public Trust as legal custodian, BNP Paribas Fund Services Australasia Pty Limited delegated as functional custodian.

Minimum investment

Initial investment	\$5,000
Further investments	\$1,000

The Manager may accept applications for investments below the minimum investment amount at its discretion.

Investment restrictions

Nikko AM Wholesale Australasian Small Companies Fund – the wholesale unit trust that the Nikko AM Australasian Small Companies Fund invests into.

Asset class	Target weight	Range
Australian smaller equities	70%	50% – 90%
New Zealand smaller equities	25%	10% – 40%
Cash	5%	0% – 10%

The wholesale fund may also enter into forward currency and other derivative contracts to appropriately manage its foreign currency risk.

Performance (NZD returns; before tax & fees)*

	Fund %	Composite Index %	Excess %
1 month	2.79	2.96	-0.17
3 months	-1.99	-4.15	2.16
6 months	5.09	-3.10	8.19
1 year	9.36	1.07	8.29
2 years (pa)	9.22	-4.91	14.13
3 years (pa)	15.16	-0.28	15.44
5 years (pa)	9.83	0.99	8.84
10 years (pa)	9.78	3.61	6.17

* The Nikko AM Australasian Small Companies Fund commenced operation in July 2009. Performance returns prior to this date are returns achieved for similar mandated investment funds as reported to various actuarial investment performance surveys.

Contributors to performance – January 2015

What helped	What hurt
NZ Refining Company Limited	Ozforex Group Limited
Summerset Group Holdings	Kathmandu Holdings
Ainsworth Game Technology	Nine Entertainment Company

Top five holdings

Security	Sector
Metlifecare Limited	Healthcare
NZ Refining Company Limited	Energy
Infratil Limited	Utilities
Summerset Group Holdings	Healthcare
Aveo Group	Financials

Number of holdings in portfolio **46**

Asset allocation

Australian small companies	58.8%
New Zealand small companies	38.8%
Cash	2.4%

Commentary

The market started the year very strong with the NZX Small Companies Index rising an impressive 2.25% in January. This was better than the Australian small companies market (S&P/ASX Small Ordinaries Index) which was up only 0.91% in AUD terms. Both indices underperformed their respective broader markets with the NZX50 up 3.16% and the ASX/S&P200 Index +3.28%.

Central Banks took centre stage in January with a number of surprise policy easing actions over the course of the month. India, then Switzerland's central bank unexpectedly cut rates in response to falling inflationary pressures. Denmark and Canada were forced to cut interest rates in an effort to stop their currencies from rising as strongly as the Swiss Franc did. The Reserve Bank of New Zealand switched from a tightening to a neutral bias. Bond markets rallied around the world with the US bond market seeing their 10-year yields fall 0.39% to 1.64%.

The Fund posted a solid return but finished slightly behind its benchmark for the month. Strong performances were seen from **Summerset** (SUM), up 11.9% for the month, following very strong new sales in its fourth quarter and solid re-sales of existing units; and **NZ Refining** (NZR) which continued to benefit from the falling NZ dollar against the USD and the continued rebound in the refining margin. NZR, while not in the NZX50, rose an impressive 14.9% for the month. Other contributors over the month were gaming technology company **Ainsworth Game Technology** (AGI), which was up 25% in January, and one of the Fund's largest holdings **Aveo Group** (AOG) who also operates retirement villages and residential and commercial property developments, which rose 5.6%.

Three new stocks were added in January – retirement operator **Estia Health** (EHE), **Fonterra** (FSF) and property investment and development **Villa World** (VLW) – while Michael Hill (MHI) and Automotive Holdings (AHE) were both sold. Estia is Australia's fourth largest aged care service provider and operates in Victoria, NSW, South Australia and Queensland across 45 facilities. Since the IPO the stock has fallen from the A\$5.75 issue price to A\$4.79 (down some 17%) providing an opportunity. The stock's multiples now look undemanding where industry structural change underpins solid earnings growth over the next three years.

(bold denotes stock held in portfolio)

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