

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 & after fees)

1 month	3 months	6 months	1 year
4.58%	5.29%	2.48%	9.95%
2 years (pa)	3 years (pa)	5 years (pa)	Inception (pa)*
7.52%	11.63%	8.27%	10.02%

* August 2009

Contributors to performance – January 2015

What helped	What hurt
Mayne Parma Group Limited	Kathmandu Holdings
Japara Healthcare Limited	Ardent Leisure Group
NEXTDC Limited	Ozforex Group Limited

Top five holdings

Security	Sector
Ingenia Communities Group	Financials
Summerset Group Holdings	Healthcare
Metlifecare Limited	Healthcare
NZ Refining Company Limited	Energy
Aveo Group	Financials

Number of holdings in portfolio **40**

Asset allocation

Australian small companies	61.7%
New Zealand small companies	35.6%
Cash	2.7%

Commentary

Equity markets were positive in February as European markets continued their strong start to the year while the US markets bounced back from a weak January. The MSCI World Index, in local currency terms, was up just under 6% for the month. The New Zealand market underperformed with the NZX 50 index up 2.3% but well ahead of the NZX Small Cap index which rose 0.6%. The Australian market, up 6.9% (S&P/ASX 200), was buoyed by an interest rate cut and good earnings results from a number of large capitalisation companies. The Australian Small Ordinaries index had an exceptional month posting an 8.4% return with resource stocks having a great month – the Small Cap Resource Index was up almost 11%.

A number of the Fund's holdings had very good earnings results and appreciated strongly on the back of this. The best performing stock held in the Fund was **Mayne Pharma Group (MYX)**, a pharmaceutical developer and manufacturer which benefited from an acquisition, capital raising and result which saw the stock rise more than 52% (in AUD) over the month. Other strong performers over the month included **Japara Healthcare (JHC)** **Estia Health (EHE)**, **NextDC (NXT)** and **Summerset Group (SUM)** which were up 36.6%, 17.0%, 29.2% (in AUD) and 11.9% respectively. Aged care operators JHC and EHE benefited from an attractive funding model and aging population. Both reaffirmed their Prospectus numbers which, in JHC's case, relieved a number in the market who were thinking there could possibly be a downgrade to earnings coming. NXT's result was better than the market expected and was their first positive result at the earnings before interest, tax, depreciation and amortisation (EBITDA) level as they fill up their data centres. SUM, the retirement village developer, owner and operator, result was also pleasing to the market with development margins continuing to rise along with good sales and a positive outlook for the year ahead. Not everything was positive over the month – **Ardent Leisure (AAD)** disappointed the market with poor performance from its health clubs, falling 13.7% in February while **Kathmandu (KMD)** provided a very disappointing sales update and as a result we divested our holding.

Key portfolio changes over the month included adding JHC and **Austal (ASB)**, a boat builder dominated by military ships for the United States Navy. As mentioned above we divested our holding in KMD along with holdings in intellectual property firm IPH Ltd (IPH), which has had a stellar run since listing, OzForex (OFX) which provides foreign exchange services and Ainsworth Game Technology (AGI).

(bold denotes stock held in portfolio)

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