

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 over 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

The objective of the Fund is 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, expenses and taxes.

The current benchmark for the Fund is the Australasian Small Companies Composite Index.

Composite index

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

S&P/ASX Small Ordinaries Index (NZD; unhedged)	70%
S&P/NZX SmallCap Index Gross with Imputation	25%
NZX New Zealand Call Rate 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 investment objective for the Fund. The investment objective 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
-0.54%	5.39%	12.17%	16.65%
2 years (pa)	3 years (pa)	5 years (pa)	Inception (pa)*
12.57%	16.38%	10.64%	10.23%

* August 2009

Contributors to performance – June quarter 2015

What helped	What hurt
Speedcast International Limited	Pacific Edge Limited
Ingenia Communities Group	AWE Limited
Mantra Group Limited	APN News & Media

Top five holdings

Security	Sector
NZ Refining Company Limited	Energy
Ingenia Communities Group	Financials
Garda Diversified Property	Financials
Diligent Corporation	Information Technology
NEXTDC Limited	Telecommunication Services

Number of holdings in portfolio **46**

Asset allocation

Australian small companies	63.2%
New Zealand small companies	32.5%
Cash	4.3%

Commentary

After a strong first quarter's performance, the New Zealand equity market lost ground over the June quarter. The S&P/NZX Small Companies Index fell 2.73% for the three months but year-to-date was down only 0.64%. The Australian Small Companies Index underperformed New Zealand, down 4.04% over the quarter but remains positive for the six months at +2.97%. Issues surrounding the Greek financial crisis and the Shanghai Composite Index falling 7.3%, driven by a crackdown on margin lending and a surge in IPOs, made for the disappointing June month as many market participants were concerned the crisis may spread to other Euro countries.

Large movements over the quarter were seen in the currency markets. With the RBNZ making its first 25 basis point cut to the Official Cash Rate (OCR), the NZD weakened notably for month, quarter and year-to-date. Year-to-date, and for one year, the NZD is down 13.1% and 23.7% versus the USD, and down 8.0% and 5.4% versus the AUD, respectively. One of the portfolio's stocks best positioned to benefit from this, **NZ Refining** (NZR), added significant value over the period rising 7.3% over the quarter. Other contributors to performance over the quarter included **Ingenia** (INA), which added value following a further upgrade to its likely sales volumes, along with **Pact Group** (PGH), **Summerset** (SUM) and **Speedcast** (SDA).

There were a number of changes to the portfolio over the month including adding **Arvida** (ARV), **Chorus** (CNU), **Garda Diversified Property** (GDF), **Skilled Group** (SKE), **Syrah** (SYR), **Veda** (VED), **Villa World** (VLW) and **Wynyard** (WYN). Positions divested included Iress (IRE), iSentia (ISD), Mainfreight (MFT), Slater & Gordan (SGH) and Trustpower (TPW). The fund ended the month in line with its targeted number of companies and a cash weight of around 5% providing some protection and cash for opportunities if the Greek situation worsens.

(bold denotes stock held in portfolio)

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