

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\$4.5 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).

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 18 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
-3.47%	-1.24%	3.69%	6.27%
2 years (pa)	3 years (pa)	5 years (pa)	Inception (pa)*
7.91%	13.31%	9.39%	9.80%

* August 2009

Contributors to performance – August 2015

What helped	What hurt
Sirtex Medical Limited	APN News and Media Limited
Estia Health Limited	Dick Smith Holdings Limited
Smartgroup Corporation	AWE Limited

Top five holdings

Security	Sector
NZ Refining Company Limited	Energy
Ingenia Communities Group	Financials
Garda Diversified Property	Financials
Aveo Group	Financials
Mighty River Power	Utilities

Number of holdings in portfolio **45**

Asset allocation

Australian small companies	66.1%
New Zealand small companies	29.3%
Cash	4.6%

Commentary

Global equity markets were weak and volatile over the month of August. The New Zealand market reporting season, while broadly in-line with expectations, led to a number of volatile outcomes as well. The S&P/NZX Small Companies Index fell 1.6% for the month, significantly outperforming the broader market's 4.5% decline. The fall in global equities was the worst monthly performance in more than three years with investors concerns about global growth, Chinese equity market volatility and the Yuan currency devaluation and the potential impact of interest rate increases by the US Federal Reserve. In Australia, the S&P/ASX Small Ordinaries Index fell 4.9% (in AUD terms), outperforming the 7.8% fall (in AUD) of the S&P/ASX 200 Index.

Recently added liver cancer medical company **Sirtex Medical Limited** performed soundly since its entry into the portfolio in late July with the stock rising 12.5% over August. On the downside, media company **APN News and Media** underperformed significantly after a poor result with the stock down a heavy 29% for the month and Australasian retailer **Dick Smith** also sold off, down 22.5% for the period. Additionally, oil exploration company AWE fell 26.2% for August with the heavy sell off in oil prices.

Two stocks – Diligent and Genworth Mortgage Insurance – were sold from the Fund over the month. Both stocks underperformed against the market with Diligent closing 11% down by month end and Genworth nearly 20% lower after the manager sold.

In economic news, business confidence fell to a six year low in August and now shows confidence at levels normally regarded as recessionary. This coincided with a sharp decline in both investment and employment intentions. Both falls were linked to the plunge in dairy prices, in spite of the recent bounce seen in the last dairy auction. The annual rate of growth in the New Zealand economy could now possibly slip towards the 2% level by the end of this year. The NZD fell 3.5% against the USD over the month and 0.9% against the AUD. The RBNZ Monetary Policy Statement (MPS) on 10 September will be interesting on how far down the RBNZ revise their expectations for GDP growth and the likelihood of another cut in the OCR.

(bold denotes stock held in portfolio)

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General Enquiries: NZenquiries@nikkoam.com | +64 9 307 6363