

### 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.

## Nikko AM NZ Unit Trusts (Retail)

## Fund Summary

### Nikko AM Australasian Small Companies Fund 30 September 2015

#### 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
-0.86%	-1.56%	3.75%	6.52%
2 years (pa)	3 years (pa)	5 years (pa)	Inception (pa)*
5.97%	11.85%	7.18%	9.51%

\* August 2009

#### Contributors to performance – September quarter 2015

What helped	What hurt
NZ Refining Company Limited	AWE Limited
Speedcast International	Syrah Resources
Sedgman Limited	Dick Smith Holdings Limited

#### Top five holdings

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

Number of holdings in portfolio **46**

#### Asset allocation

Australian small companies	60.0%
New Zealand small companies	34.3%
Cash	5.7%

#### Commentary

The Australasian Small Companies Composite Index, in NZ dollars terms, was weak throughout the quarter with falls of 0.13% in July, a further 2.96% down in August and 1.42% off in September. The S&P/NZX50 Index fell 1.1% in September against falls of 2.6% for the US S&P500 and 3.6% for the ASX200 index (in local currency terms). The S&P/NZX50 ended the quarter -1.81% following the 4.46% fall in August and July's strong positive 3.4% move.

Offshore markets were generally weak over much of the quarter as concerns heightened surrounding a softening of Chinese growth expectations, heavy falls in commodity prices, along with the Fed delaying raising rates at its September FOMC meeting.

The Fund performed well against its Index over the September quarter and year. This was aided by strong performances from **NZ Refining** (NZR) which rose 24% over the quarter, **Speedcast** (SDA) rising 43.3% and **Sedgman** (SDM) +28%. Laggards held within the Fund were predominately in the mining, retail and media sectors.

There were a number of entries and exits within the portfolio over the quarter. Fund additions included **Retail Food Group** (RFG), **Australian Finance Group** (AFG), **Cover-More** (CVO), **Mighty River Power** (MRP), **Smartgroup** (SIQ), **Tassel Group** (TGR) and **Stride Property** (STR). On the sell side stocks exited completely included News Corp (NWS), Villa World (VLW), McMillian Shakespeare (MMS), ERM Power (EPW), G8 (GEM), Wynyard (WYN), NZ Windfarms (NWF), Nine (NEC), and Veda Group (VDA). VDA announced it had received a \$2.70 per share cash takeover offer from US-based Equifax leading to the shares rising 31.3% on the day of the announcement and the manager sold shortly afterwards.

On the economic front, the Reserve Bank (RBNZ) cut the OCR by 0.25% to 2.75% at the September MPS and maintained an easing bias by saying "some further easing in the OCR seems likely". Most expect a further 0.25% cut in the OCR at the RBNZ's 29 October OCR Review. June quarter GDP data showed the economy continues to slow with the annual growth rate falling to 2.4% year-on-year down from 2.7% in the March quarter. However, a further bounce in dairy auction prices should provide some support in coming quarters. The depreciation in the NZD over the quarter continued with a 5.7% fall against the USD however the NZD bounced 3.65% against the AUD as dairy prices rose off their lows and falls in hard commodity prices continued to put pressure on the Australian dollar.

*(bold denotes stock held in portfolio)*

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