

Fund manager

Nikko Asset Management New Zealand Limited (Nikko AM).

Nikko AM is Asia's premier global asset manager. We actively manage over NZ\$4.8 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%
S&P/NZX Call Rate Deposit 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% / 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

29 February 2016

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 and expenses)

1 month	3 months	6 months	1 year
-2.37%	-4.04%	3.78%	7.61%
2 years (pa)	3 years (pa)	5 years (pa)	Inception (pa)*
8.77%	7.55%	7.22%	9.64%

* August 2009

Contributors to performance – February 2016

What helped	What hurt
APN News & Media	Impedimed Limited
Syrah Resources Limited	Cover More Group Limited
Diligent Corporation	CSG Limited

Top five holdings

Security	Sector
NEXTDC Limited	Information technology
APN News & Media	Consumer discretionary
Syrah Resources Limited	Materials
360 Capital Industrial Fund	Financials
NZ Refining Company Limited	Energy

Number of holdings in portfolio **40**

Asset allocation

Australian small companies	68.8%
New Zealand small companies	29.5%
Cash	1.7%

Commentary

Global equity markets over the month of February struggled, falling in the first half of the month on rising risk aversion before recovering somewhat, although finishing the month generally lower. Markets were weighed down by a global sell-off in bank stocks, a weakening economic backdrop, particularly from China, deflation fears in Europe, and concerns over Brexit' fears over the upcoming British referendum on EU membership. Bond yields around the world fell on a weakening economic growth outlook. Japan's benchmark 10-year government bonds fell below zero, an unprecedented low for a G7 economy, following the Bank of Japan's adoption of negative interest rates the previous month. In Australia, equities were generally lower with mining companies outperforming and banks underperforming. The NZX Small Cap index fell 0.19% for the month with the S&P/ASX Small Cap index rising 0.95% compared with the boarder NZX50 Index which rose 1.01% and the S&P/ASX 200 Index falling 1.76%.

As was the case New Zealand, the Australian market was pre-occupied with reporting season. The domestic earnings season showed a wider divergence of earnings growth outturns than in recent earnings periods. One of the notable features of the results season has been the rise in dividend payouts. **Diligent** (DIL; +19.4%), which received a takeover bid at US\$4.90 a share, contributed to the Fund's return in February. Other notable performers were **Syrah Resources** (SYR; +15%), the graphite exploration company and **APN News and Media** (APN; +14.5%). **Metlifecare** (MET) rose 7.5% and in its result noted strong growth in key profit metrics being driven by the lift in list prices of resale units across the portfolio and increases in new sales of occupation right agreements.

Orion Health Group (OHE) was added to the portfolio after a recent period of weakness since its IPO and new contract wins. Also added was intellectual property services firm **IPH Limited** (IPH) operating across Australia, New Zealand and the Pacific Islands. Programmed Maintenance Services (PRG) was sold after a poor result and although the Fund lost on its investment into the company, the stock continued to underperform heavily post sale.

The New Zealand dollar rose 0.83% against the Australian dollar over the month. This impacted on Fund performance due to Australian dollar investments currently being unhedged.

(Bold denotes stock held in portfolio)

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