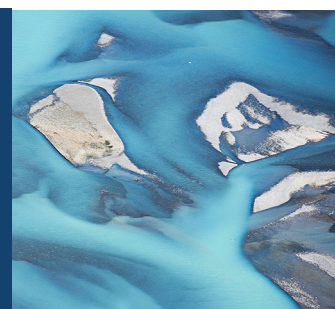


# NIKKO AM AUSTRALASIAN SMALL COMPANIES FUND

## Monthly Fact Sheet

## 30 June 2016



### Investment objective

The objective of the Fund is to construct a portfolio of permitted investments that outperform the Fund's benchmark return by 3.0% per annum over a rolling three year period before fees, expenses and taxes.

### Benchmark

#### Composite of:

|  |       |
|--|-------|
| S&P/ASX Small Ordinaries Index expressed in NZD (unhedged) | 70.0% |
| S&P/NZX SmallCap Index gross with Imputation               | 25.0% |
| S&P/NZX Call Rate Deposit Index                            | 5.0%  |

### Fund description

The Fund aims to provide investors with an exposure to New Zealand and Australian "emerging leaders" securities from an actively managed investment portfolio with potential for growth of income and capital.

The Fund gains its investment exposure by investing into the Nikko AM Wholesale Australasian Small Companies Fund which is managed by the Nikko AM NZ Equity team.

### Distributions

Semi-annual. Last business days of March and September.

### Currency management

Foreign currency exposures created as a consequence of capital markets investment may be hedged to NZD at the Manager's discretion with an operational range of 0% to 105%. Currency hedging contracts are held in the Nikko AM Wholesale Australasian Small Companies Fund.

### Management fees and other charges

A management fee of 1.00% per annum calculated as a percentage of the net asset value of the Fund will be calculated and deducted from the Fund. This fee is calculated daily and is payable to Nikko AM.

Nikko AM may also recover expenses (including the Trustee fee) from the Fund up to a maximum of 0.25% per annum of the Fund's net asset value. Estimate of expenses as at 1 July 2016 are 0.25% per annum.

### Performance fee

We charge a performance fee of 10% of gains above the hurdle rate. The "hurdle rate" is the minimum return the Fund must achieve before being able to charge a performance fee. The hurdle for the Fund is 3% above the Australasian Small Companies Composite Index over a 12 month financial period after deducting our management fee and expenses. Performance-based fees are payable only if the Fund's performance exceeds the high water mark. The high water mark for the Fund is equal to the performance level of the Fund at the end of the last financial period when a performance fee was charged. This means if the Fund loses value over one or more financial periods, Nikko AM NZ must achieve investment returns above the high water mark for the Fund before receiving another performance-based fee. The high water mark cannot be reset unless the Fund's performance exceeds that mark. The performance fee for each financial period is accrued daily in the unit price and paid at the end of the financial period. A financial period for the Fund is 12 months ending 31 March in each year. The performance fee does not have a maximum limit.

### Buy/sell spread

0.35% / 0.35%

### Strategic asset allocation

| Asset class  | Range      |
|--|------------|
| Australasian equities, cash and cash equivalents, and listed property via the Nikko AM Wholesale Australasian Small Companies Fund | 95% – 100% |
| Cash on call for investor transactions   | 0% – 5%    |

### Investment ranges and benchmark weights

| Asset class                  | Target | Range     |
|------------------------------|--------|-----------|
| Australian Smaller Equities  | 70%    | 50% ⇔ 90% |
| New Zealand Smaller Equities | 25%    | 10% ⇔ 40% |
| Cash and cash equivalents    | 5%     | 0% ⇔ 10%  |

## Restrictions

Nikko AM Wholesale Australasian Small Companies Fund:

- Maximum 8% exposure to any one security.
- Maximum aggregate exposure of 40% to the top five investments.
- Securities included in the S&P/ASX 100 Index and/or the NZX 10 Index are not permitted.

Full details of the permitted investments and restrictions are outlined in the SIPO.

## Performance

(NZD returns; before tax, after fees and expenses)

| 1 month      | 3 months     | 6 months     | 1 year          |
|--------------|--------------|--------------|-----------------|
| -5.26%       | -1.72%       | 0.93%        | 10.42%          |
| 2 years (pa) | 3 years (pa) | 5 years (pa) | Inception (pa)* |
| 13.49%       | 11.85%       | 9.83%        | 10.25%          |

\* August 2009

## Contributors to performance – June qtr 2016

| What helped                | What hurt                |
|----------------------------|--------------------------|
| Select Harvest Limited     | Wellard Limited          |
| Syrah Resources Limited    | Cover More Group Limited |
| Orion Health Group Limited | Rhipe Limited            |

## Asset allocation (% of fund)

|                      |       |
|----------------------|-------|
| New Zealand equities | 22.9% |
| Australian equities  | 67.1% |
| Cash                 | 10.0% |

## Top 5 holdings

| Security                    | Sector                 |
|-----------------------------|------------------------|
| RCG Corporation             | Consumer Discretionary |
| Syrah Resources Limited     | Materials              |
| Aconex Limited              | Information Technology |
| The A2 Milk Company Limited | Consumer Staples       |
| Estia Health Limited        | Healthcare             |
| <b>Number of holdings</b>   | <b>43</b>              |

## Commentary

Global equity markets posted generally solid returns for the June quarter with Europe and Japan being the few exceptions. Earlier in the period after recent Fed statements many global economists had brought forward their expectations for the next Fed rate hike from late 2016 to either June or July, but by quarter end this had pushed out into next year. Late in the quarter, the looming Brexit decision resulted in market uncertainty and the final vote for “Leave” initially upset markets, but markets bounced strongly with the UK market up 5.3% for the quarter with most of this coming from the +4.4% rise in June.

The New Zealand market (S&P/NZX 50 Index) was up a modest 2.3% and the S&P/NZX Small Cap Index was up 2.2%. In the immediate aftermath of the “Leave” decision, the wider NZX50 Index fell sharply, down 3.4%, although most of this was made back in the final days of the quarter. The wider Australian market (S&P/ASX 200 Index) was up 3.94% for the quarter and the S&P/ASX Small Ordinaries Index rose an impressive 5.85%.

The strongest positive contribution over the quarter came from recent Fund entrant, almond grower **Select Harvests** which rose just under 60%; **Orion Healthcare** +41%; graphite resources company supplying to EV batteries, **Syrah Resources** +39%; and property maintenance company **Programmed Maintenance** +23%. Under performers included livestock company **Wellard** and **Rhipe Limited**, the software licensing business for cloud customers.

Seven positions were sold over the month – Arvida, Burson Group, Pact Group, Vitaco, Blackmores, Vista Group and the remaining part of the Western Areas. A number of holdings were added to the Fund during the quarter including **Freelancer**, **Kina Securities**, **Ooh!Media**, retail investment company **RCG Corporation** and **A2 Milk**.

On the economic news front, the release of the Budget provided surprisingly robust news on the state of the New Zealand economy. The NZ dollar rose 6.08% against the Australian dollar detracting from Fund performance due to Australian dollar investments currently being unhedged. Against the US dollar, the NZ dollar rose 3.0% during the quarter with one of the consequences seen as most likely from the UK Brexit vote is for the US Federal Reserve to be on hold for an extended period. While the RBNZ still has concerns that lower interest rate settings will further drive recent momentum in housing activity recent moves in the NZ dollar will not be welcomed and may see the RBNZ cut rates by 25 basis points to 2.0% at their 11 August MPS in spite of the local economy not appearing to need further stimulus.

(**Bold** denotes stock held in portfolio)

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