

Nikko AM Wholesale Australasian Small Companies Fund

Fund manager

Nikko Asset Management New Zealand Limited (Nikko AM).

Nikko AM is Asia's premier global asset manager. In New Zealand we actively manage 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).

Fund launch

May 2012 – a similar portfolio has been operated by Nikko AM since 1996.

Investment objective

To achieve a return that exceeds the benchmark return on an annual basis before fees, over a rolling three year period. The current benchmark return for the Fund is the Australasian Small Companies Composite Index plus 3.0% per annum.

Composite index

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

S&P/ASX Small Ordinaries Accumulation Index	70%
S&P/NZX SmallCap Index Gross with Imputation	25%
S&P/NZX Call rate Deposit Index	5%

Investment process

Nikko AM is an active style neutral manager with a lower risk approach to investment. The small companies' portfolio provides exposure to New Zealand and Australian small companies, otherwise referred to as "emerging leaders". The 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 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. The Fund invests directly into tradeable capital market securities. Whilst the majority of the return is "excluded income" there will be a portion of interest income, dividends not fully imputed, and certain ASX listed shares will not fit the criteria for trading gains/losses to be excluded. Information is provided to the IRD and unit holders on an annual basis.

Distributions

At any date for any period fixed by the Manager

Hedging policy

AUD exposures are hedged to the NZD at the discretion of the Manager.

Management fees and other charges

Investment management fees will be negotiated separately with each investor and invoiced outside the Fund.

All Fund statutory and operating costs will be met directly by the Manager.

Performance fee

Negotiated separately with each investor and invoiced outside the Fund.

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.

Selected investors only

Participation in the Fund is limited to persons or entities who are New Zealand resident, and:

- (a) whose principal business is the investment of money; or
- (b) who, in the ordinary course of and for the purposes of their business, habitually invest money;

and, consequently (or for other reasons) do not constitute "the public" for the purposes of the Securities Act 1978 (**Exempt Person**). Nikko AM will not therefore be required to produce a registered prospectus or an investment statement in relation to the proposed investment (such documents otherwise being required were this offer to be made to persons or entities that are not Exempt Persons), and such documents will not be produced accordingly. Investors in the Fund will be required to acknowledge their status as an Exempt Person as part of their subscription in the Fund. Investors in the Fund will also be required to undertake to Nikko AM that any transfers of interests in the Fund will only be to Exempt Persons.

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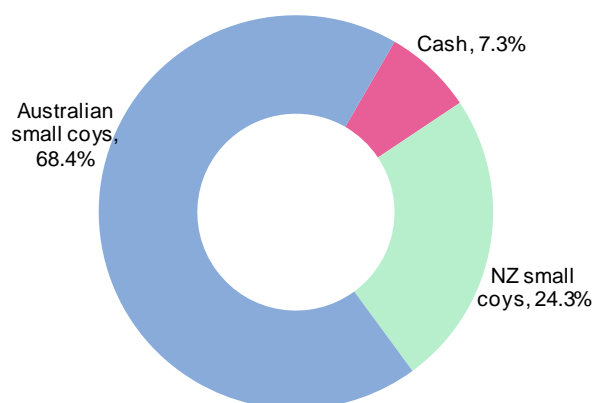
Performance (NZD returns; before tax & fees)*

	Fund %	Composite Index %	Excess %
1 month	-3.41	-2.62	-0.79
3 months	3.88	2.31	1.57
6 months	3.20	0.87	2.34
1 year	17.11	5.76	11.35
2 years (pa)	13.17	3.39	9.78
3 years (pa)	11.79	-1.48	13.27
5 years (pa)	10.35	-1.01	11.36
10 years (pa)	9.72	2.89	6.83

* The Nikko AM Wholesale Australasian Small Companies Fund commenced operation in May 2012. Performance returns prior to this date are returns achieved for similar mandated investment funds as reported to various asset consultant's performance surveys.

Fund size \$5 million

Asset allocation



Contributors to performance

What helped	What hurt
NEXTDC Limited	Lovisa Holdings Limited
Greencross Limited	Rhipe Limited
M2 Group Limited	Austal Limited

Top five holdings

Security	Sector
NEXTDC Limited	Information technology
APN New & Media	Consumer discretionary
NZ Refining Company Limited	Energy
360 Capital Industrial Fund	Financials
Ingenia Communities Group	Financials

Number of holdings in portfolio

39

Commentary

Global equity markets have been under pressure since the start of the year, falling from the first trading day of the year and then posting further sharp falls before rallying on the final trading day of the month as the Bank of Japan surprised markets with negative interest rates. Investors continued to worry about a weakening Chinese economy and devaluations, an oil price which continues to collapse and disappointing US earnings season to date. China was one of the worst performing markets with the Shanghai Composite index falling 23% over the month. Global yields fell throughout the month on weakening US / Chinese data and dovish central bank statements. While the MSCI World index fell 6%, the New Zealand market was one of the better performers globally, down only 2.4% (S&P/NZX 50 Index) while the Australian market (S&P/ASX 200 Index) fell 5.5%. Small companies underperformed the broader index with the NZX Small Companies Index falling 3.88% while the ASX Small Ordinaries (in AUD), -5.1%, performed similarly to the wider index.

The Fund performance was slightly behind that of the composite Small Companies Index for the month. January was a relatively quiet period for the portfolio as far as changes were concerned with only one stock sold during the month, Lovisa (LOV), as the Australian based fashion jewellery retailer disappointed the market due to margin pressures. No portfolio additions were made.

New Zealand economic data released over the past month broadly suggested an improvement in domestic momentum. This was evidenced by a lift in both business and consumer sentiment over the month, extremely solid tourism stats, and migration remaining at elevated levels inflow. Weakness in the dairy sector is acting as a counter to this along with a moderation in house price growth in the Auckland region. The RBNZ kept the OCR at 2.50% and suggested that "some further policy easing may be required over the coming year."

The NZ dollar fell 2.5% against the Australian dollar aiding portfolio returns due to the unhedged position of the portfolio.

(Bold denotes stock held in portfolio)

Compliance

The Fund complied with its investment mandate during the month.