

## 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\$4.8 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).

### 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

0.35% / 0.35%

### 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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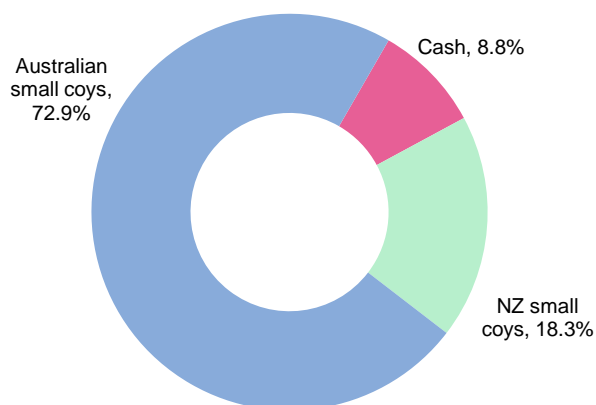
Performance (NZD returns; before tax & fees)\*

	Fund %	Composite Index %	Excess %
1 month	2.86	1.52	1.34
<b>3 months</b>	<b>12.62</b>	<b>12.00</b>	<b>0.62</b>
6 months	9.14	10.31	-1.17
<b>1 year</b>	<b>17.02</b>	<b>10.23</b>	<b>6.80</b>
2 years (pa)	16.91	8.57	8.34
<b>3 years (pa)</b>	<b>14.55</b>	<b>5.93</b>	<b>8.62</b>
5 years (pa)	11.98	1.68	10.30
<b>10 years (pa)</b>	<b>9.37</b>	<b>2.88</b>	<b>6.49</b>

\* 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 \$5.3 million

Asset allocation



Contributors to performance

What helped	What hurt
Select Harvests Limited	Wellard Limited
Eclipx Group Limited	NZ Refining Company Ltd
Programmed Maintenance	Rhipe Limited

Top five holdings

Security	Sector
IPH Limited	Consumer Discretionary
Select Harvests Limited	Consumer Staples
Syrah Resources Limited	Materials
Cover-More Group	Financials
Village Roadshow	Consumer Discretionary

Number of holdings in portfolio **45**

Commentary

Global equity markets generally posted solid returns in May with the UK FTSE being one of the few exceptions as concerns for Brexit hurt its performance. After recent US Federal Reserve statements many global economists have brought forward their expectations for the next US rate hike from late 2016 to either June or July. This did not unsettle financial markets as it did the first time a rate increase was close.

The New Zealand market (S&P/NZX 50 index) was up 3.3% while the Small Companies sector was flat (+0.1%). The Australian market (S&P/ASX 200) was similarly strong up 3.1% for the month and the Australian Small Ordinaries Index rose 4.1%. The S&P/ASX 200 Resource Index shed 5% after gaining 16% in April.

The Fund outperformed the Small Companies Composite Index over the month. The strongest contribution was from recent Fund entrant, almond grower **Select Harvests**, which rose just under 40%. Other contributors included Property maintenance company **Programmed Maintenance** (+26.3%), **Orion Healthcare** (+23.5%) and fleet leasing company **Eclipx** (+21.4%). Detractors over the month included livestock company **Wellard** and **Rhipe Limited** – the software licensing business for cloud customers.

Three positions were sold in May – Burson Group, Vista Group and the remaining holding of Western Areas. A number of new holdings were added during May including **Kina Securities**, **Ooh!Media**, retail investment company **RCG Corporation** and **A2 Milk**.

On the economic front, the release of the New Zealand Budget provided surprisingly robust news on the state of the local economy and this may temper the chances of the RBNZ lowering the OCR at their next meeting. The New Zealand dollar rose 1.86% against the Australian dollar on top of the +1.75% rise from April. This detracted from performance due to Australian dollar investments currently being unhedged. Against the US dollar, the New Zealand dollar fell 3.1% as Fed Chair Yellen signalled a return to rises in interest rates.

*(Bold denotes stock held in portfolio)*

Compliance

The Fund complied with its investment mandate during the month.