

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\$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).

Fund launch

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

Investment objective

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.

Benchmark

Composite of:

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%

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.

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.

Distributions

At any date for any period fixed by the Manager

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%.

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.

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Performance (NZD gross returns)*

	Fund	Composite Index	Excess
1 month	-5.01%	-3.17%	-1.84%
3 months	-1.20%	0.51%	-1.71%
6 months	1.68%	5.59%	-3.91%
1 year	11.22%	9.23%	1.99%
2 years (pa)	15.50%	7.98%	7.51%
3 years (pa)	14.17%	7.06%	7.11%
5 years (pa)	12.12%	1.97%	10.16%
10 years (pa)	8.28%	2.24%	6.04%

* 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

NZ\$5.2 million

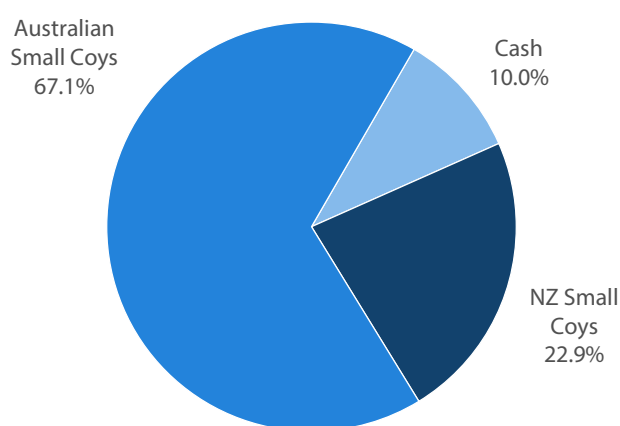
Contribution to performance (absolute)

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

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
Number of holdings	43

Asset allocation



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**, **OohiMedia**, 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)

Compliance

The Fund complied with its investment mandate during the month.