

Nikko AM Wholesale Australasian Small Companies Fund

Fund manager

Nikko Asset Management New Zealand Limited (Nikko AM NZ).

In New Zealand we actively manages around 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 NZ 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 Portfolio Investment Entity (PIE) which is priced daily. Investors 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 IR and investors on an annual basis.

Investment process

Nikko AM NZ 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

Generally on calendar quarters, or at any date for any period determined 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	6.29%	7.73%	-1.44%
3 months	3.85%	5.90%	-2.05%
6 months	11.89%	16.81%	-4.92%
1 year	15.48%	17.82%	-2.35%
2 years (pa)	17.35%	9.41%	7.94%
3 years (pa)	15.12%	8.36%	6.76%
5 years (pa)	13.75%	3.71%	10.04%
10 years (pa)	8.85%	2.82%	6.03%

* 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\$5.4 million

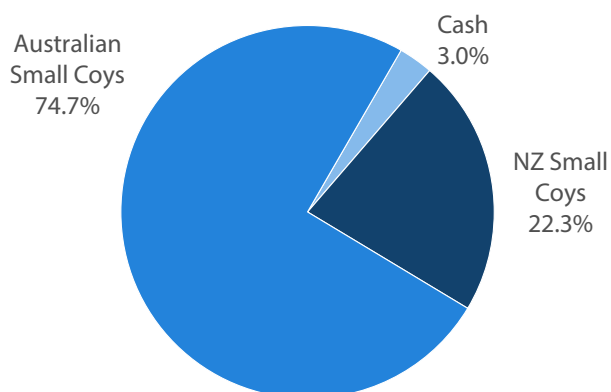
Contribution to performance (absolute)

What helped	What hurt
Imedpimed	Syrah Resources
RCG Corporation	Isentia
TouchCorp	EROAD

Top 5 holdings

Security	Sector
Aconex Limited	Information Technology
A2 Milk	Consumer Staples
Estia Heath	Healthcare
Impedimed Limited	Healthcare
IPH Limited	Industrials
Number of holdings	45

Asset allocation



Commentary

The New Zealand equity market performed strongly over the month of July returning 6.55% (as represented by the S&P / NZX50 Index) making for a solid outperformance against global markets over the month and year-to-date. Markets were impacted by the Brexit referendum but bounced back quickly afterward. The rebound came as investors viewed additional monetary policy globally would support risk assets in general and equity markets more specifically and by a stronger than expected US reporting season. The Australian market was strong up 6.29% (S&P ASX200 Index) while the US and the UK were up 3.56% and 3.38% respectively. Many markets hit all-time highs during the period. The rally in equities went hand-in-hand with a significant move lower in bond yields as the NZ 10-year Government bond yield finished the month on its lows at 2.20%, down some 0.15% over the month, driven by the RBNZ signaling a likely OCR cut in August.

The Fund produced an acceptable 6.3% return for the month, gross of fees and tax, but struggled to match the performance of the composite index which rose 7.7% with the rebound in resource sector. The Fund's investments in medical device company Impedimed (IPD) which rose 42.4%, retail investment holding company RCG Corporation (RCG) who rose 21.7%, Touchcorp (TCH) the enterprise software services company which rose 32.5% and Aconex (ACX) the global construction project SaaS platform +15.3% contributed most to Fund performance over the month. The worst performer, Syrah Resources, fell 23%.

The manager sold a number of names from the Fund over the month including previously mentioned performer RCG Corporation (RCG), Investore (IPL) who listed via IPO and was sold following opening 9% higher post IPO, Tegal (TGH) and Orion Healthcare (OHE) following very strong period of performance from our entry levels below \$3.00 to an exit price just below \$5. Names added to the Fund included financial services business Scottish Pacific (SCO), car dealer Automotive Holdings (AHG), medical diagnostics firm Integral Diagnostics (IDX), NZ transport company Mainfreight (MFT), media company NZME (NZM) and retirement operator Aveo (AOG).

On the economic front, currencies were volatile over the month with the NZD falling 0.82% against the AUD but rising 1.1% against the USD.

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

Compliance

The Fund complied with its investment mandate during the month.