

Nikko AM Wholesale Australasian Small Companies Fund

Fund manager

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

In New Zealand we actively manage 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	-3.26%	-1.56%	-1.70%
3 months	-2.33%	2.69%	-5.01%
6 months	10.00%	15.01%	-5.01%
1 year	14.62%	19.52%	-4.89%
2 years (pa)	12.23%	6.60%	5.64%
3 years (pa)	12.14%	6.60%	5.54%
5 years (pa)	14.08%	3.94%	10.14%
10 years (pa)	8.73%	2.82%	5.90%

* 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\$5.0 million

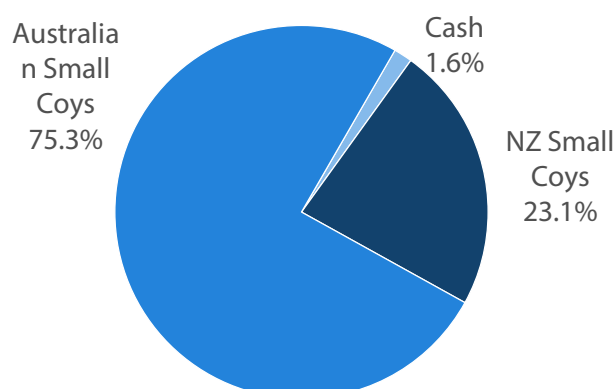
Contribution to performance (absolute)

What helped	What hurt
Austral (ASB)	Estia Health (EHE)
Impedimed (IPD)	Wellard (WLD)
Isentia (ISD)	Aconex (ACX)

Top 5 holdings

Security	Sector
Impedimed Limited	Healthcare
A2 Milk	Consumer Staples
Ingenia Communities Group	Financials
Eroad Limited	Information Technology
Automotive Holdings	Consumer Discretionary
Number of holdings	44

Asset allocation



Commentary

Following a sharp rally over July, the S&P/NZX 50 Gross Index rose 0.69% in August 2016 with 'small caps' outperforming leaders with the NZX SmallCap Index up 2.79%. The S&P/ASX200 Accumulation Index, S&P500 and FTSE100 returned -1.6%, +0.1% and +1.7% respectively in local currencies. Most indices performed poorly leading into the end of the month. The NZX 50 Index during 2016 has recorded an impressive 17.65% rise along with a 15.3% rise in the NZX SmallCap Index with the most recent earnings season generally providing good news. Results were in line with expectations with increased dividends continuing to be the main theme.

In economic news, most data released over August suggested continued momentum in the New Zealand economy driven by strong migration, construction and tourism activity. This has been supported by the RBNZ reducing the OCR by 0.25% to 2.00% at their August Monetary Policy Statement (MPS). Data appears to be suggesting a year-on-year growth rate of 3.3% with relatively muted inflation as food prices continue to fall.

The RBNZ continued with an explicit easing bias suggesting "further policy easing will be required to ensure that future inflation settles near the middle of the target range" and as such the market is expecting two additional OCR cuts in the next six months bottoming out at 1.5%. Currencies were volatile over the month with the NZD rising 1.73% against the AUD and up 0.82% against the USD.

The Fund performed poorly for the month falling 3.26% gross of fees and tax. The Fund struggled to match the performance of the Index due to **Estia Health** (EHE) which fell 34% after continuing concerns for government funding and a well below expectation results. Two other stocks detracting from performance were **Wellard** (WLD) and **Aconex** (ACX) falling 35.6% and 21.4% respectively. On the plus side, the Fund's positions in **Austral** (ASB) +25%, **Impedimed** (IPD) +13.4% and **Isentia** (ISD) helped.

Two names were sold from the Fund over the month – Scottish Pacific (SCO) and media company NZME (NZM) and three stocks were introduced into the Fund – **Fonterra Shareholders Fund** (FSF), **Mainfreight** (MFT) and **PropertyLink Group** (PLG).

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

Compliance

The Fund complied with its investment mandate during the month.