

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 expressed in NZD (unhedged)	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 Prescribed Investor 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	0.36%	2.98%	-2.62%
3 months	3.20%	9.20%	-6.00%
6 months	1.96%	9.75%	-7.79%
1 year	17.01%	24.85%	-7.84%
2 years (pa)	12.86%	9.72%	3.15%
3 years (pa)	10.86%	7.74%	3.12%
5 years (pa)	16.04%	6.14%	9.90%
10 years (pa)	8.63%	3.11%	5.52%

* 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

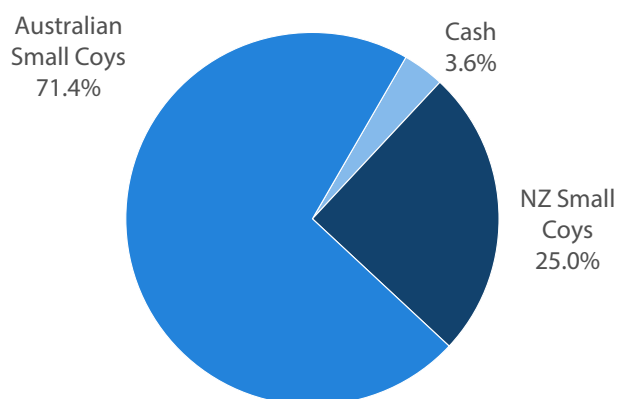
Contribution to performance (absolute)

What helped	What hurt
Impedimed Limited	Syrah Resources Limited
RCG Corp Limited	Estia health Limited
Ardent Leisure	Wellard Limited

Top 5 holdings

Security	Sector
Impedimed Limited	Health care
Aconex Limited	Information technology
A2 Milk	Consumer staples
Ingenia Communities Group	Real estate
Freelancer Ltd	Information technology
Number of holdings	46

Asset allocation



Commentary

Following a sharp rally over July, the S&P/NZX 50 Gross Index rose +0.69% in August and was flat in September to end the month as one of the strongest performing markets globally. The S&P/NZX 50 Gross Index rose 7.26% for the quarter while the NZX Small Cap Index rose an impressive 10.68%. The S&P/ASX200 Accumulation Index, S&P500 and FTSE100 returned +5.1%, +3.3% and +6.1% respectively in local currencies. The NZX 50 index on a year-to-date basis has recorded an impressive 17.6% rise with the NZX SmallCap index up 18.9%.

In economic news, recent quarterly data (for June) showed economic growth gaining momentum and is now above its long-term trends. GDP growth rose to 3.6% year-on-year to the end of June and above that seen for the year to March 2016 of 3.0%. Recent out performance has come from the construction and services sectors both continuing to benefit from the sustained period of tourism and migration data. Migration numbers hit an all-time high over August aiding robust house price inflation. Currencies were volatile over the month with the NZD falling 0.63% against the AUD, mildly aiding the portfolio's unhedged positions, but up 2.3% against the USD over the quarter.

The Fund produced a solid return of 3.20% for the quarter but on a relative basis struggled to match the relentless rise of the NZ market. The Fund had a number of solid performers for the quarter with non-invasive medical device company **ImpediMed** (IPD) up 69%, entertainment firm Ardent Leisure (ADD) +37% before it was sold from the portfolio, boat manufacturer **Austal** (ASB) +23.9% and the short term ownership of NZME (NZM) +23% while the Fund owned it.

The manager was busy over the quarter with a number of names sold completely including diversified retailing company RCG Corp, Metro Performance Glass (MPG), NEXTDC (NXT), Orion Healthcare (OHE), Ardent Leisure (ADD), Wellard (WLD), Tegal Group (TGH) and Investore (IPL). New additions to the Fund over the quarter included retirement developer and operator **Aveo Group** (AOG), **Fonterra** (FSF), **PropertyLink Group** (PLG), **Chorus** (CNU), medical diagnostics company Integral Diagnostics (IDX), honey business **Comvita** (CVT), retailer Adairs (ADH) and credit collection business **Credit Corp** (CCP).

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

Compliance

The Fund complied with its investment mandate during the month.