

# 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	-2.34%	-3.43%	1.09%
3 months	-5.18%	-2.11%	-3.07%
6 months	-1.53%	3.66%	-5.19%
1 year	10.21%	16.98%	-6.77%
2 years (pa)	10.35%	7.66%	2.69%
3 years (pa)	8.93%	4.52%	4.41%
5 years (pa)	13.82%	3.50%	10.32%
10 years (pa)	8.04%	2.09%	5.95%

\* 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

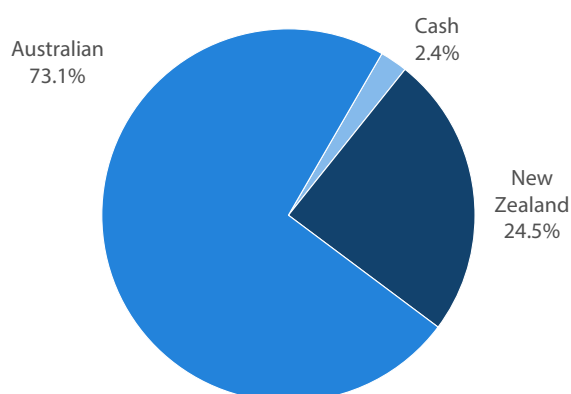
### Contribution to performance (absolute)

What helped	What hurt
Mortgage Choice	Aconex
Impedimed	Freelancer
Greencross	Syrah Resources Ltd

### Top 5 holdings

Security	Sector
Impedimed Limited	Health care
Ingenia Communities Group	Real Estate
Cover More Group Ltd	Financials
IPH Limited	Industrials
Property Link Group	Real estate
<b>Number of holdings</b>	<b>46</b>

### Asset allocation



### Commentary

Global equity markets were mixed in October with Asian and European markets generally up while the US and Australasian markets were down. The MSCI World Index 100% hedged to NZD ended the month down 0.5%. With the US election, the prospect of the US Federal Reserve raising rates before the end of the year and offshore selling, the NZ Equity market was down 5.44% following on from posting a historic high on 7 September of 7,571. The month was the worst month since 2010 and was the sixth worst monthly performance of the NZX50 Index. The NZ equity market closed down 8.1% from its peak and underperformed against the Australian market with the S&P/ASX 200 index down only 2.15% for the month with the Australian market led lower by Healthcare (-8.1%) and REITs (-7.4%) sectors. The majority of markets suffered from a rise in bond yields and a steepening in global yield curves led by the US, which saw 10-year bond yields from 1.59% to 1.85% hurting yield sensitive sectors and markets and bond markets which had their worst monthly return since May 2013 (the taper tantrum). Currency markets were dominated by a strong USD as expectations around further Fed tightening began to increase. The NZD finished the month down 1.1% against the AUD (closing at 0.9399) and down 1.85% against the USD (to \$0.7151). Oil was the big mover where Brent Oil peaked intra month at US\$52.95 but finished down at US\$46.97 and Gold was weaker by 4% over the month. The tone of domestic economic data releases over October continued to point to strong GDP growth of around 3.0% to 3.5% while inflationary pressures remained muted.

The Fund fell in absolute terms but performed well against the wider market out-performing by 1.09%. The Fund's holdings in Mortgage Choice (MOC) which rose 12.6% along with Impedimed (IPD) +3.9% and Greencross (GXL) up 9.5% aided in relative fund performance. Detractors of absolute performance included Aconex (ACX) and Freelancer (FLN). The portfolio manager removed Credit Corp (CCP) from the portfolio during the month after a relatively successful trade and sold the small weight in Mainfreight (MFT). Stocks that were added to the Fund included Automotive Holdings (AHG) the Australian based automotive dealer and chicken producer Tegal (TGH) was re-added after falling 11.5% since the Fund sold its holding back in July.

### Compliance

The Fund complied with its investment mandate during the month.