

# 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	-6.86%	-1.70%	-5.16%
3 months	-8.71%	-2.25%	-6.46%
6 months	-10.84%	0.38%	-11.21%
1 year	-2.69%	10.73%	-13.41%
2 years (pa)	8.17%	9.38%	-1.21%
3 years (pa)	7.38%	5.58%	1.80%
5 years (pa)	12.68%	3.57%	9.11%
10 years (pa)	7.03%	1.55%	5.47%

\* 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

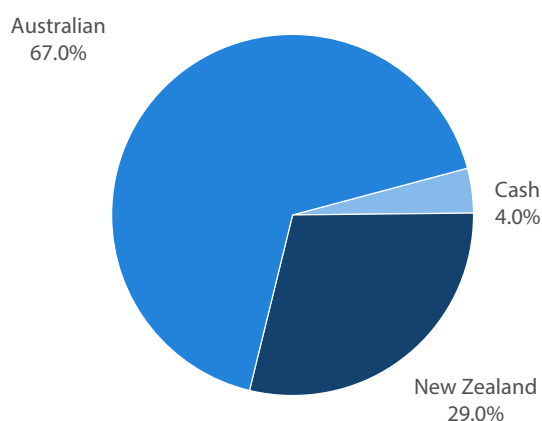
### Contribution to performance (absolute)

What helped	What hurt
A2 Milk	CSG Ltd
NZ Refining Co	Adairs Ltd
Pacific Edge	Rhipe Ltd

### Top 5 holdings

Security	Sector
Restaurant Brands	Consumer discretionary
Pacific Edge	Health care
Impedimed Ltd	Health care
Ingenia Communities	Real estate
Tilt Renewables	Utilities
<b>Number of holdings</b>	<b>46</b>

### Asset allocation



### Commentary

Equities rebounded and bonds sold off hard on the 'Trump Reflation' trade. Equity markets had initially sold off aggressively as news of marginal states were won by Trump but then rallied hard as Trump gave a 'measured' victory speech. Equities continued to rally and bonds sold off for the rest of the month on bullish expectations regarding Trump's program of fiscal stimulus, corporate tax cuts and lessened regulation. Global investors rotated into cyclical and banking stocks while emerging markets underperformed. The US dollar surged as US economic data during the month was strong.

In November the NZX50 fell 0.84% led down by some disappointing company results including Orion Healthcare (OHE -44%) and Tower Insurance (TWR -23%) neither of which were owned by the Fund. Large-caps considerably underperformed the Mid-caps with strength in Consumer Staples, Telecoms and IT. Elsewhere Energy, Health Care and Financial stocks underperformed the benchmark. The economic backdrop has seen solid GDP growth - in the order of 3.5-4.0%, with a modest negative impact from the recent Kaikoura earthquakes. Australian equities rose 3% as measured by the S&P/ASX 200 Index, led by banks and the iron ore price rallying to a 25-month high before falling heavily at the end of the month but nevertheless finished the month 15% higher. Gold fell.

The **a2 Milk Company** (ATM) announced that for the first four months of their financial year 2017 revenue had grown by 96% year-on-year and EBITDA had grown 473%, ahead of consensus expectations. ATM shares rose 7.1% on the day of the announcement and 32.5% for the month of November aiding fund performance. Another strong performer was the **NZ Refining Company** (NZR) which rose 15.2% over the month as refining margins rose and the NZ dollar fell assisting the earnings outlook for the company. **Pacific Edge** (PEB) rose 10.9% for the month. On the downside a number of companies disappointed with tech company **CSG** falling 46%, retailer **Adairs** (ADH) down 36% and software applications company **Rhipe** (RHP) down 30%.

Chorus (CNU) was sold from the Fund after gaining solid ground over the past few months since its entry. **Metro Performance Glass** (MPG) was reintroduced after a sell-off in the stock along with Trustpower demerger candidate **Tilt Renewables** (TLT).

The NZD fell 1% against the USD but rose 1.9% against the AUD over the month of November which hurt fund performance.

### Compliance

The Fund complied with its investment mandate during the month.