

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 NZ domiciled 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	-1.95%	-1.10%	-0.85%
3 months	-6.50%	-0.20%	-6.30%
6 months	-11.35%	-2.31%	-9.04%
1 year	-0.81%	14.11%	-14.92%
2 years (pa)	7.78%	9.86%	-2.08%
3 years (pa)	8.30%	6.85%	1.46%
5 years (pa)	12.15%	3.66%	8.49%
10 years (pa)	6.65%	1.32%	5.32%

* 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 million

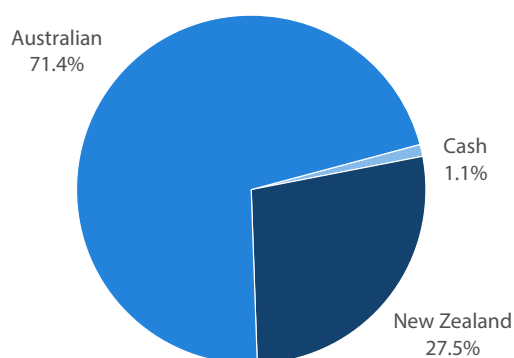
Contribution to performance (absolute)

What helped	What hurt
Tilt Renewables	Aconex
EROAD	Impediment
Restaurant Brands	Pacific Edge

Top 5 holdings

Security	Sector
Cover More Group	Financials
Restaurant Brands	Consumer discretionary
Tilt Renewables	Utilities
Pacific Edge	Healthcare
Property Link	Real estate
Number of holdings	46

Asset allocation



Commentary

Equity markets started the year on a positive note with the MSCI World index up 1.6%. All eyes have been on President Trump following his inauguration on January 20th. Early signs are that he will follow through with key pledges with orders signed to withdraw from the Trans Pacific Partnership, immigration bans and plans in motion to commence building a wall between the US and Mexico. The New Zealand equity market, as represented by the S&P/NZX 50 index rose strongly, up 2.5%, while the Small Companies Index rose a slightly better 3.19%. While in Australia, the broader market performance significantly underperformed most markets with the S&P/ASX 200 index down 0.8% and the Small Cap sector off 2.44%.

Newly added into the Fund in December, **Tilt Renewables** (TLT) performed soundly over the January. The stock rallied 18.6% for the month and it was one of the larger positions within the portfolio. **EROAD** (ERD) rising 12.5%, **Restaurant Brands** (RBD) up 9.1% and Australian tech company **CSG** +6.5% aided fund performance. In spite of these performances the portfolio lost value, down 1.95%, and under-performed relative to the Composite Small Companies Index over the month. The underperformance for the fund was primarily the result of SaaS software firm **Aconex** (ACX) which guided to revenue being 8% lower than previous guidance. While revenue guidance still implies circa +10% organic growth rate at the midpoint vs +20% under previous guidance (and +29% in the 2016 result), the cut to earnings guidance was more dramatic. Earnings are expected to be circa 50% weaker than previously forecast which lead to a share price fall of circa 40%. We remain attracted to the Aconex business model and their blue chip client base and note the stock has recovered somewhat from its lows.

Impediment (IPD) performed poorly over the month, dragging down portfolio performance as many healthcare and medical device companies underperformed globally after Trump was elected as US President.

In economic news, the New Zealand economy continued to show evidence that it is growing around 3.0-3.5% year on year suggesting solid earnings growth for many companies. The drivers remained the same with tourism, migration and a strong construction sector supporting performance. The NZD rose 0.58% over the month against the Australian dollar and an impressive 5.6% against the USD.

(**bold** denotes held in portfolio)

Compliance

The Fund complied with its investment mandate during the month.