

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	1.89%	3.42%	-1.53%
3 months	2.28%	4.99%	-2.71%
6 months	-6.63%	2.63%	-9.26%
1 year	2.71%	18.04%	-15.33%
2 years (pa)	6.43%	9.89%	-3.46%
3 years (pa)	8.26%	7.39%	0.87%
5 years (pa)	11.06%	3.28%	7.78%
10 years (pa)	6.83%	1.59%	5.24%

* 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\$4.6 million

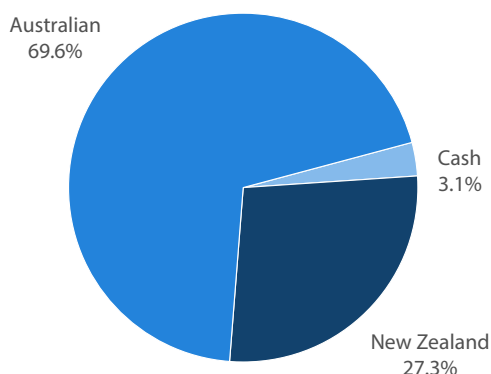
Contribution to performance (absolute)

What helped	What hurt
EROAD	CSG Ltd
Estia Health	ISENTIA Group
Property Link Group	Freelancer Ltd

Top 5 holdings

Security	Sector
Cover More Group	Financials
Restaurant Brands	Consumer discretionary
Pacific Edge	Health care
Tilt Renewables	Utilities
Property Link	Real estate
Number of holdings	45

Asset allocation



Commentary

Equity markets continued their positive start for the year with the MSCI World index returning 2.9%. President Trump was again in the forefront as markets anticipated the speech to Congress and definitive policy announcements as opposed to tweets. The New Zealand equity market, as represented by the S&P/NZX 50 index rose strongly up 1.7% with NZ Small Companies rising 2.4%. On average this lagged the Australian market which was up 2.2% (S&P/ASX 200 index) and the Small Ordinaries +1.3% while further afield the UK market was up 2.3% and the US (S&P500) was up 3.7%.

The Fund performed reasonably during February returning +1.89% but lagged relevant indices when brought back into NZ dollars. Best performers included **EROAD** (ERD) which rose 19.4% over the month as it released its ELD product in the US market. Other performers to add value to the Fund included **Estia Health** (EHE) +19.1%, **Touchcorp** (TCH) +30.3% and boat builder **Austal** (ASB)+22%.

Metlifecare (MET) delivered strong asset revaluations and reported profits up 31% for the half year. The stock increased ~11% on the announcement and contributed positively to performance. The stock continued to rally in line with the net asset backing of the investments.

Two stocks were sold including intellectual property services firm IPH and automotive dealer Automotive Holdings Group Limited (AHG). One new stock was added being **Beacon Lighting Group** (BLX).

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

Compliance

The Fund complied with its investment mandate during the month.