

# ANNUAL REPORT

For the financial year ended 31 December 2017

**Nikko AM Shenton  
Emerging Enterprise  
Discovery Fund**

**MANAGERS**

Nikko Asset Management Asia Limited  
12 Marina View, #18-02 Asia Square Tower 2  
Singapore 018961  
Company Registration No. 198202562H

**DIRECTORS**

Lim Soon Chong  
Junichi Sayato  
Seet Oon Hui Eleanor  
David Jonathan Semaya  
Yu-Ming Wang

**TRUSTEE & REGISTRAR**

BNP Paribas Trust Services Singapore Limited  
20 Collyer Quay, #01-01  
Singapore 049319

**AUDITORS**

PricewaterhouseCoopers LLP  
7 Straits View, Marina One,  
East Tower, Level 12,  
Singapore 018936  
(With effect from 2 January 2018)

**CUSTODIAN**

BNP Paribas Securities Services, operating through its Singapore Branch  
20 Collyer Quay, #01-01  
Singapore 049319

This report is also available on our website ([www.nikkoam.com.sg](http://www.nikkoam.com.sg))

## PERFORMANCE SUMMARY

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<b>Returns (%)</b>	<b>3 Mth</b>	<b>6 Mth</b>	<b>1 Yr</b>	<b>3 Yr</b>	<b>5 Yr</b>	<b>10 Yr</b>	<b>Since Inception</b>
Nikko AM Shenton Emerging Enterprise Discovery Fund <sup>1</sup>	11.78	15.35	23.01	3.40	2.74	-2.39	4.68
Benchmark <sup>2</sup>	8.21	11.54	23.19	6.64	6.56	2.14	4.63

Source: Nikko Asset Management Asia Limited, returns as at 31 December 2017. Returns are calculated on NAV-NAV basis, SGD, and based on the assumption that all dividends and distributions are reinvested, if any. Returns for period in excess of 1 year are annualised. Past performance is not indicative of future performance.

<b>Returns (%)</b>	<b>3 Mth</b>	<b>6 Mth</b>	<b>1 Yr</b>	<b>3 Yr</b>	<b>5 Yr</b>	<b>10 Yr</b>	<b>Since Inception</b>
Nikko AM Shenton Emerging Enterprise Discovery Fund <sup>1</sup>	6.19	9.58	16.86	1.65	1.69	-2.89	4.41
Benchmark <sup>2</sup>	8.21	11.54	23.19	6.64	6.56	2.14	4.63

Source: Nikko Asset Management Asia Limited, returns as at 31 December 2017. Returns are calculated on NAV-NAV basis, SGD, and based on the assumption that all dividends and distributions are reinvested, if any, and take into account of maximum initial sales charge and a realisation charge, currently nil, as and where applicable. Returns for period in excess of 1 year are annualised. Past performance is not indicative of future performance.

### **Inception date: 13 March 1998**

#### **Note:**

- (1) With effect from 17 October 2011, the Fund (formerly known as "Shenton Global Advantage Fund") was renamed as Nikko AM Shenton Global Advantage Fund. With effect from 1 October 2012, the investment focus and approach of the Fund was changed and the Fund was re-named Nikko AM Shenton Emerging Enterprise Discovery Fund.
- (2) Prior to 1 May 2017, the performance returns of the benchmark was calculated using price index methodology. With effect from 1 May 2017, it is calculated using net total return index methodology. With effect from 1 October 2012, the benchmark was changed from MSCI World Small Cap Index to MSCI AC Asia ex Japan Small Cap Index.

### **Portfolio Review**

#### **Fund returned 23.01% in 2017**

Over the review period, the Nikko AM Shenton Emerging Enterprise Discovery Fund (the "Fund") returned 23.01%, (SGD terms, on NAV-NAV basis), largely in line with the benchmark which returned 23.19%.

We start of this review of stocks in China. Demographics continue to be a strong driving force in China, with rising incomes as the dominant force driving consumption. One of the big overlying themes we see from our on the ground company site visits are the rise of the Chinese brands. JNBY Design Limited which is one of our key holdings, benefits from the rise of the middle class and premiumization. The company is a local designer which boosts its own distribution network and loyal fan base. Chinese brands are gaining traction and we think that in the next 5-10 years, they could take the center stage. Armed with key brands JNBY, less, Croquis, JNBY by JNBY and Pomme de terre, the company has been gaining market share in the Chinese retail market. The company trades at 10x P/E and boosts ROEs of 40-60%.

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Across in Hong Kong, TK group holdings which is a plastics solution provider is our proxy for automation and growth in global demand. The company supplies to a myriad of sectors such as automobile, communications, mobile phones and wearable devices. The company boasts ROEs of 30% and was trading at 8.8x when we initiated our position.

On the back of incipient signs of an economic recovery in the US and the bottoming of oil prices below USD30 per barrel and then the fiscal stimulus by China in late 2015, commodities began rallying. In the early stages of the cycle, the Fund had missed opportunities but nevertheless managed to gain exposure latterly via China Molybdenum (mainly copper and cobalt), Zijin Mining, United Tractors and ITMG. China Moly has one of the largest copper deposits and is a producer of cobalt, a material that is widely used in electric vehicle batteries. We have taken some profit as recent stock price gains begin to recognise the value in its copper mines. Though late to the coal price rally, the investment in ITMG had delivered healthy gains and we took profit as we were of the view that valuations were fair.

Moving on to Korea, it has been a tough spot, with the impeachment of the president, coupled with geopolitical tensions with North Korea and China. Small capitalization stocks fell out of favour as investors fled to the large capitalization stocks for safety. While the ride was bumpy, we held on firm to quality stocks to the portfolio. Nasmedia which is a digital marketing company is one of our core holdings that benefits from the rise of digital media in Korea. Advertisers are structurally shifting from traditional media formats towards digital marketing, where the returns are higher as advertisements are more targeted. Nasmedia as the leading media representative company in Korea, coupled with their strong data solutions platform is well positioned to benefit from this trend.

While the Fund has been successful in many instances, there were difficult reviews we had to undertake and painful decisions made. In Indonesia, construction companies appeared to be poised for a good year with the delay in government contracts expected to come back post the tax amnesty which has bolstered the government balance sheet. Unfortunately, successive delays in funding raised uncertainty for the companies, coupled with projects delays the stocks headed south. We exited Wijaya Kaya, Waskita Baton, Adhi Karya during the period under review. In Korea, we were impressed by CLIO cosmetics management after meeting them, however, the geopolitical tensions between Korea and China led to the company missing earnings and we closed the position as we do not see respite.

This is not an exhaustive review of the activities the Fund undertook during 2017. Hopefully, it has given the reader an overarching view of some of the ideas that materialise from our meetings with company management, regular research and our endeavour to identify suitable investments for the Fund.

### **Market Review**

Asian markets rallied in 2017, with MSCI Asia ex Japan small cap index returning 23.19% in SGD terms (33% in USD terms). By region, Taiwan small caps were the top performing in USD terms, with MSCI Taiwan small caps returning 43% for the full year. Korea was the second best performing region returning a total of 39% in USD terms for the full year. China underperformed the region with 25% in USD terms.

Starting with China, the economy was strong in 2017, delivering 6.9% of real GDP growth, accelerating for the first time since 2010. Exports from China remains strong, supported by a synchronized global recovery. On the political front, reforms continue to take place, with the state council meeting pushing forth further SOE consolidation in order to increase competitiveness. The move to centralize resources will be favourable to the economy as it reduces excess capacity and increases efficiency in the system.

Taiwan was the top performing market as information technology stocks soared on the back of strong earnings supported by various themes such as 3D sensing, speaker boxes and ADAS. While the euphoria waned in the 4Q as iPhone X and 8 sales were lacklustre, the stock market still managed to punch above its weight supported by long term structural drivers.

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Across in Korea, the first three quarters of the year had dismal performance as large cap stocks, in particular Samsung Electronics stayed in the spotlight for the majority of the year. The dismal performance however reversed towards the end of September when the Korean government announced a series of Kosdaq boosting measures, supporting small cap stocks. A series of measures were announced such as tax exemption of investing in selected Kosdaq companies, a new benchmark for fund managers – KRX 300 which consists of both large cap KOSPI and small cap Kosdaq stocks.

Small cap stocks in ASEAN had relatively weak performance in 2017 with MSCI Indonesia small cap stocks delivering -9.55% in USD terms. Indonesian small cap stocks had a tough time in 2017 as the overall economy was weak and recovery in commodity prices did not flow into the real economy. Within Asean, Malaysia was an outlier with DRB-HiCom delivering 60% in local currency terms, pulling up the index post a partial sale of Proton to Geely the Chinese automotive maker.

### **Market Outlook and Strategy**

2017 saw the first broad based economic and market recovery since 2009. Better growth prospects coupled with rising inflation warrant more hawkish monetary policy globally. As Central Banks tighten their belts, investor focus will shift to regions and sectors that offer better sustainable growth as opposed to cyclical sectors riding the early stages of reflation. In 2018, small cap companies in Asia continue to look attractive, offering better growth than developed markets, and at more attractive valuations. MSCI Asia ex-Japan Small Cap trades on 1.52x forward Price-to-Book (P/B) multiple compared to 2.40x P/B multiple for MSCI AC World. Earnings growth are estimated to be 20-25%, serving as support for rerating. By sector, our strongest conviction ideas are located mainly in the consumer sector, where we see quality growth in selected stocks. In particular, we focus on innovative companies with good long term prospects that benefit from income growth, digitalisation as well as demographics. We continue to be bottom up focused, looking at niche companies with sustainable business models backed by seasoned management and strong balance sheets.

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This document is for information only with no consideration given to the specific investment objective, financial situation and particular needs of any specific person. Any securities mentioned herein are for illustration purposes only and should not be construed as a recommendation for investment. You should seek advice from a financial adviser before making any investment. In the event that you choose not to do so, you should consider whether the investment selected is suitable for you. Investments in unit trusts are not deposits in, obligations of, or guaranteed or insured by Nikko Asset Management Asia Limited (**"Nikko AM Asia"**).

**Past performance or any prediction, projection or forecast is not indicative of future performance.** The funds may use or invest in financial derivative instruments. The value of units and income from them may fall or rise. Investments in the funds are subject to investment risks, including the possible loss of principal amount invested. You should read the relevant prospectus and product highlights sheet obtainable from appointed distributors of Nikko AM Asia or our website ([www.nikkoam.com.sg](http://www.nikkoam.com.sg)) before investing.

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#### **For Hong Kong Investors**

The Fund is offered only to professional investors and is not authorized by the Securities and Futures Commission in Hong Kong. The contents of this document have not been reviewed by any regulatory authority in Hong Kong. You are advised to exercise caution in relation to this document. If you are in any doubt about any of the contents of this document, you should obtain independent professional advice.

Nikko Asset Management Asia Limited. Registration Number 198202562H

## SOFT DOLLAR COMMISSIONS/ARRANGEMENTS

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### Appointment of soft dollar brokers

The Managers will only appoint soft dollar brokers onto their broker panel after they have ensured that:

- a) full disclosure of the practice of accepting soft dollars is made;
- b) the commission rates charged are comparable with the market rates;
- c) there is no conflict of interest;
- d) the soft dollar credits are used only for clearly defined services;
- e) at all times trades are executed through the respective brokers only on the basis of best execution regardless whether soft dollar benefits will accrue. Best execution shall include competitive prices with smooth execution ability; and
- f) relevant regulations and guidelines are complied with.

The procedures for the appointment of the brokers shall be no different from that of normal full service brokers.

### Execution and allocation

If the Trustee objects to the use of the soft dollar brokers, the trades of the Fund shall be segregated from the rest of the trades that are executed through the relevant soft dollar broker(s). The Managers will execute trades for such accounts only with authorised full service brokers.

It is the responsibility of the Managers to ensure that the allocation quotas are adhered to. In addition, the Managers will monitor the execution ability of the soft dollar brokers and assign the business strictly on a "best execution" basis.

Subject to the provisions of the Code\*, in their management of the Fund, the Managers may receive soft dollar commissions from, or may enter into soft dollar arrangements with, stockbrokers who execute trades on behalf of the Fund and the soft dollars received would be restricted to the following kinds of services:

- a) specific advice as to the advisability of dealing in, or of the value of any investments;
- b) research and advisory services;
- c) economic and political analysis;
- d) portfolio analysis including valuation and portfolio measurements;
- e) market analysis;
- f) data and quotation services;
- g) computer hardware or software that are used to support the investment decision making process, the giving of advice, or the conduct of research or analysis; and
- h) custodial services in relation to the investments managed for clients.

The following are, however, prohibited:

- a) travel, accommodation and entertainment expenses;
- b) general administrative goods and services including office equipment and premises;
- c) membership fees;
- d) employee salaries; and
- e) direct money payments / rebates.

The Managers will retain the records of the payments made using soft dollar commissions.

The Managers of the Nikko AM Shenton Emerging Enterprise Discovery Fund (the "Fund") will not accept or enter into soft-dollar commissions / arrangements unless:

- such soft-dollar commissions / arrangements would in the opinion of the Managers, assist the Managers in their management of the Fund;
- the Managers shall ensure at all times that best execution is carried out for the transactions; and
- no unnecessary trades are entered into in order to qualify for such soft-dollar commissions / arrangements.

The Managers of the Nikko AM Shenton Emerging Enterprise Discovery Fund will comply with applicable regulatory and industry standards on soft dollars.

\* The "Code" means the Code on Collective Investment Schemes issued by the Authority pursuant to the Securities and Futures Act, as may be amended, modified, or supplemented from time to time by the Authority.

## **NIKKO AM SHENTON EMERGING ENTERPRISE DISCOVERY FUND**

*(Constituted under a Trust Deed registered in the Republic of Singapore)*

### **REPORT OF THE TRUSTEE**

*For the financial year ended 31 December 2017*

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The Trustee is under a duty to take into custody and hold the assets of Nikko AM Shenton Emerging Enterprise Discovery Fund (the "Fund") in trust for the unitholders. In accordance with the Securities and Futures Act (Cap. 289), its subsidiary legislation and the Code on Collective Investment Schemes, the Trustee shall monitor the activities of the Manager for compliance with the limitations imposed on the investment and borrowing powers as set out in the Trust Deed in each annual accounting year and report thereon to unitholders in an annual report.

To the best knowledge of the Trustee, the Manager has, in all material respects, managed the Fund during the financial year covered by these financial statements, set out on pages 12 to 32, in accordance with the limitations imposed on the investment and borrowing powers set out in the Trust Deed.

For and on behalf of the Trustee  
BNP Paribas Trust Services Singapore Limited

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Authorised signatory  
29 March 2018

**NIKKO AM SHENTON EMERGING ENTERPRISE DISCOVERY FUND**

*(Constituted under a Trust Deed registered in the Republic of Singapore)*

**STATEMENT BY THE MANAGER**

*For the financial year ended 31 December 2017*

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In the opinion of Nikko Asset Management Asia Limited, the accompanying financial statements set out on pages 12 to 32, comprising the Statement of Total Return, Statement of Financial Position, Statement of Movements of Unitholders' Funds, Statement of Portfolio and Notes to the Financial Statements are drawn up so as to present fairly, in all material respects, the financial position and the portfolio holdings of Nikko AM Shenton Emerging Enterprise Discovery Fund (the "Fund") as at 31 December 2017, and the financial performance and movements in unitholders' funds for the financial year then ended in accordance with the recommendations of Statement of Recommended Accounting Practice 7 "Reporting Framework for Unit Trusts" issued by the Institute of Singapore Chartered Accountants. At the date of this statement, there are reasonable grounds to believe that the Fund will be able to meet its financial obligations as and when they materialise.

For and on behalf of the Manager  
Nikko Asset Management Asia Limited

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Authorised signatory  
29 March 2018

**INDEPENDENT AUDITOR'S REPORT**  
**TO THE UNITHOLDERS OF NIKKO AM SHENTON EMERGING ENTERPRISE DISCOVERY FUND**  
*(Constituted under a Trust Deed registered in the Republic of Singapore)*

***Our Opinion***

In our opinion, the accompanying financial statements of Nikko AM Shenton Emerging Enterprise Discovery Fund (the "Fund"), are properly drawn up in accordance with the recommendations of Statement of Recommended Accounting Practice 7 "Reporting Framework for Unit Trusts" issued by the Institute of Singapore Chartered Accountants, so as to present fairly, the financial position and portfolio holdings of the Fund as at 31 December 2017, and of the financial performance and movements of unitholders' funds for the financial year ended on that date.

*What we have audited*

The financial statements of the Fund comprise:

- the Statement of Total Return for the financial year ended 31 December 2017;
- the Statement of Financial Position as at 31 December 2017;
- the Statement of Movements of Unitholders' Funds for the financial year ended 31 December 2017;
- the Statement of Portfolio as at 31 December 2017; and
- the notes to the financial statements, including a summary of significant accounting policies.

***Basis for Opinion***

We conducted our audit in accordance with Singapore Standards on Auditing ("SSAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Independence*

We are independent of the Fund in accordance with the Accounting and Corporate Regulatory Authority Code of Professional Conduct and Ethics for Public Accountants and Accounting Entities ("ACRA Code") together with the ethical requirements that are relevant to our audit of the financial statements in Singapore, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the ACRA Code.

***Other Information***

The Fund's Manager (the "Manager") is responsible for the other information. The other information comprises the all sections of the annual report but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

**INDEPENDENT AUDITOR'S REPORT**  
**TO THE UNITHOLDERS OF NIKKO AM SHENTON EMERGING ENTERPRISE DISCOVERY FUND**  
(Constituted under a Trust Deed registered in the Republic of Singapore)

***Responsibilities of the Manager for the Financial Statements***

The Manager is responsible for the preparation and fair presentation of these financial statements in accordance with the recommendations of Statement of Recommended Accounting Practice 7 "Reporting Framework for Unit Trusts" issued by the Institute of Singapore Chartered Accountants and for such internal control as the Manager determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Manager is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to terminate the Fund or to cease the Fund's operations, or has no realistic alternative but to do so.

The Manager's responsibilities include overseeing the Fund's financial reporting process.

***Auditor's Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with SSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Manager.
- Conclude on the appropriateness of the Manager's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

**INDEPENDENT AUDITOR'S REPORT**  
**TO THE UNITHOLDERS OF NIKKO AM SHENTON EMERGING ENTERPRISE DISCOVERY FUND**  
*(Constituted under a Trust Deed registered in the Republic of Singapore)*

We communicate with the Manager regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

PricewaterhouseCoopers LLP  
Public Accountants and Chartered Accountants  
Singapore, 29 March 2018

**NIKKO AM SHENTON EMERGING ENTERPRISE DISCOVERY FUND***(Constituted under a Trust Deed registered in the Republic of Singapore)***STATEMENT OF TOTAL RETURN***For the financial year ended 31 December 2017*

	Note	2017 S\$	2016 S\$
<b>Income</b>			
Dividends		109,462	83,863
Interest on cash and bank balances		5	-
		<u>109,467</u>	<u>83,863</u>
<b>Less: Expenses</b>			
Management fee		70,377	74,240
Registrar fee		5,971	5,744
Trustee fee		15,001	15,042
Custody fee		3,160	2,896
Audit fee		9,829	11,491
Valuation fee		10,000	10,028
Transaction costs		47,991	47,776
Other expenses		32,982	39,224
		<u>195,311</u>	<u>206,441</u>
<b>Net losses</b>		<u>(85,844)</u>	<u>(122,578)</u>
<b>Net gains or losses on value of investments</b>			
Net gains/(losses) on investments		1,096,011	(124,082)
Net foreign exchange losses		(17,017)	(20,322)
		<u>1,078,994</u>	<u>(144,404)</u>
<b>Total return/(deficit) for the financial year before income tax</b>		<b>993,150</b>	<b>(266,982)</b>
<b>Less: Income tax</b>	3	<b>(9,012)</b>	<b>(6,878)</b>
<b>Total return/(deficit) for the financial year after income tax</b>		<u><b>984,138</b></u>	<u><b>(273,860)</b></u>

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*The accompanying notes form an integral part of these financial statements*

**NIKKO AM SHENTON EMERGING ENTERPRISE DISCOVERY FUND***(Constituted under a Trust Deed registered in the Republic of Singapore)***STATEMENT OF FINANCIAL POSITION***As at 31 December 2017*

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	Note	2017 S\$	2016 S\$
<b>ASSETS</b>			
Portfolio of investments		4,935,034	4,309,623
Sales awaiting settlement		-	81,782
Receivables	4	1,632	1,225
Cash and bank balances		170,662	325,553
<b>Total assets</b>		<b>5,107,328</b>	<b>4,718,183</b>
<b>LIABILITIES</b>			
Payables	5	43,712	47,187
Purchases awaiting settlement		-	34,592
<b>Total liabilities</b>		<b>43,712</b>	<b>81,779</b>
<b>EQUITY</b>			
Net assets attributable to unitholders	6	5,063,616	4,636,404

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*The accompanying notes form an integral part of these financial statements*

**NIKKO AM SHENTON EMERGING ENTERPRISE DISCOVERY FUND***(Constituted under a Trust Deed registered in the Republic of Singapore)***STATEMENT OF MOVEMENTS OF UNITHOLDERS' FUNDS***For the financial year ended 31 December 2017*

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	Note	2017 S\$	2016 S\$
<b>Net assets attributable to unitholders at the beginning of the financial year</b>		<b>4,636,404</b>	5,572,353
<b>Operations</b>			
Change in net assets attributable to unitholders resulting from operations		<b>984,138</b>	(273,860)
<b>Unitholders' contributions/(withdrawals)</b>			
Creation of units		<b>214,296</b>	76,178
Cancellation of units		<b>(771,222)</b>	(738,267)
Change in net assets attributable to unitholders resulting from net creation and cancellation of units		<b>(556,926)</b>	(662,089)
Total increase/(decrease) in net assets attributable to unitholders		<b>427,212</b>	(935,949)
<b>Net assets attributable to unitholders at the end of the financial year</b>	6	<b>5,063,616</b>	4,636,404

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*The accompanying notes form an integral part of these financial statements*

**NIKKO AM SHENTON EMERGING ENTERPRISE DISCOVERY FUND***(Constituted under a Trust Deed registered in the Republic of Singapore)***STATEMENT OF PORTFOLIO***As at 31 December 2017*

<b>By Geography (Primary)</b>	<b>Holdings at 31 December 2017</b>	<b>Fair value at 31 December 2017 S\$</b>	<b>Percentage of total net assets attributable to unitholders at 31 December 2017 %</b>
<b>Quoted Equities</b>			
<b>BERMUDA ISLANDS</b>			
Haier Electronics Group Company Limited	29,000	106,094	2.10
LUK Fook Holdings International Limited	17,000	97,503	1.92
Shangri-La Asia Limited	36,000	109,178	2.16
Valuetronics Holdings Limited	117,680	107,089	2.11
<b>Total BERMUDA ISLANDS</b>		<b>419,864</b>	<b>8.29</b>
<b>CAYMAN ISLANDS</b>			
ASM Pacific Technology Limited	3,900	72,606	1.43
Chailease Holding Company Limited	21,000	81,670	1.61
China Meidong Auto Holdings Limited	230,000	95,939	1.89
Dadi Early-Childhood Education Group Limited	6,119	66,912	1.32
Geely Automobile Holdings Limited	11,000	50,961	1.01
Greenland Hong Kong Holdings Limited	143,000	76,028	1.50
JNBY Design Limited	65,000	108,897	2.15
Lifestyle International Holdings Limited	49,500	87,838	1.74
MGM China Holdings Limited	24,000	97,033	1.92
Nexteer Automotive Group Limited	45,000	143,242	2.83
Parade Technologies Limited	3,000	79,353	1.57
Ten Pao Group Holdings Limited	190,000	56,842	1.12
TK Group Holdings Limited	130,000	108,453	2.14
Vinda International Holdings Limited	26,000	69,694	1.38
<b>Total CAYMAN ISLANDS</b>		<b>1,195,468</b>	<b>23.61</b>
<b>CHINA</b>			
China Molybdenum Company Limited	111,000	95,259	1.88
Travelsky Technology Limited	16,000	64,142	1.27
Xinjiang Goldwind Science & Technology Company Limited	24,400	55,394	1.09
Yichang Hec Changjiang Pharmaceutical Company Limited	21,400	100,057	1.98
Zijin Mining Group Company Limited	154,000	77,664	1.53
<b>Total CHINA</b>		<b>392,516</b>	<b>7.75</b>
<b>HONG KONG SAR</b>			
Nissin Foods Company Limited	52,000	29,158	0.58
<b>Total HONG KONG SAR</b>		<b>29,158</b>	<b>0.58</b>
<b>INDIA</b>			
Crompton Greaves Consumer Electricals Limited	18,114	104,488	2.06
GRUH Finance Limited	9,124	96,148	1.90
Indusind Bank Limited	1,350	46,608	0.92
PC Jeweller Limited	6,165	59,054	1.17
Prestige Estates Projects Limited	14,567	97,036	1.92
Punjab National Bank	16,265	58,371	1.15
Torrent Pharmaceuticals Limited	2,035	60,442	1.19
<b>Total INDIA</b>		<b>522,147</b>	<b>10.31</b>

*The accompanying notes form an integral part of these financial statements*

**NIKKO AM SHENTON EMERGING ENTERPRISE DISCOVERY FUND***(Constituted under a Trust Deed registered in the Republic of Singapore)***STATEMENT OF PORTFOLIO***As at 31 December 2017***By Geography (Primary)** (continued)

	Holdings at 31 December 2017	Fair value at 31 December 2017 S\$	Percentage of total net assets attributable to unitholders at 31 December 2017 %
<b>Quoted Equities</b> (continued)			
<b>INDONESIA</b>			
Bukit Asam Persero TBK PT	297,500	72,087	1.43
Vale Indonesia TBK PT	304,800	86,766	1.71
<b>Total INDONESIA</b>		158,853	3.14
<b>PHILIPPINES</b>			
Bloomerry Resorts Corporation	281,000	81,996	1.62
Shakey's Pizza Asia Ventures Incorporated	114,200	41,150	0.81
<b>Total PHILIPPINES</b>		123,146	2.43
<b>SINGAPORE</b>			
SATS Limited	9,400	48,880	0.97
Sunningdale Tech Limited	34,800	67,164	1.33
Venture Corporation Limited	3,400	69,598	1.37
<b>Total SINGAPORE</b>		185,642	3.67
<b>SOUTH KOREA</b>			
BGF Retail Company Limited	256	67,110	1.32
CJ E&M Corporation	654	79,763	1.57
Com2Uscorp	574	97,521	1.93
Coway Company Limited	382	46,589	0.92
Dentium Company Limited	636	49,462	0.98
Hanmi Pharm Company Limited	169	123,205	2.43
Kiwoom Securities Company Limited	952	104,105	2.06
Modetour Network Incorporated	2,086	79,423	1.57
Nasmedia Company Limited	1,154	107,323	2.12
Songwon Industrial Company Limited	3,004	101,812	2.01
Studio Dragon Corporation	920	74,650	1.47
Viatron Technologies Incorporated	3,142	81,387	1.61
<b>Total SOUTH KOREA</b>		1,012,350	19.99
<b>TAIWAN</b>			
EGIS Technology Incorporated	11,000	111,889	2.21
HU Lane Associate Incorporated	10,000	68,485	1.35
Primax Electronics Limited	19,000	67,407	1.33
Shanghai Commercial & Savings Bank Limited	74,212	112,146	2.21
Sinbon Electronics Company Limited	18,000	69,760	1.38
Sunonwealth Electric Machine Industry Company Limited	28,000	65,889	1.30
TCI Company Limited	6,205	79,974	1.58
TWI Pharmaceuticals Incorporated	13,000	49,157	0.97
<b>Total TAIWAN</b>		624,707	12.33

*The accompanying notes form an integral part of these financial statements*

**NIKKO AM SHENTON EMERGING ENTERPRISE DISCOVERY FUND***(Constituted under a Trust Deed registered in the Republic of Singapore)***STATEMENT OF PORTFOLIO***As at 31 December 2017***By Geography (Primary)** (continued)

	Holdings at 31 December 2017	Fair value at 31 December 2017 S\$	Percentage of total net assets attributable to unitholders at 31 December 2017 %
<b>Quoted Equities</b> (continued)			
<b>THAILAND</b>			
KCE Electronics Public Company Limited	16,700	56,668	1.12
Major Cineplex Group Public Company Limited	51,800	61,600	1.22
Sino-Thai Engineering & Construction Public Company Limited	75,500	72,446	1.43
Vinythai Public Company Limited	94,800	80,469	1.59
<b>Total THAILAND</b>		<b>271,183</b>	<b>5.36</b>
<b>Total Quoted Equities</b>		<b>4,935,034</b>	<b>97.46</b>
<b>Portfolio of investments</b>		<b>4,935,034</b>	<b>97.46</b>
<b>Other net assets</b>		<b>128,582</b>	<b>2.54</b>
<b>Net assets attributable to unitholders</b>		<b>5,063,616</b>	<b>100.00</b>

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*The accompanying notes form an integral part of these financial statements*

## NIKKO AM SHENTON EMERGING ENTERPRISE DISCOVERY FUND

(Constituted under a Trust Deed registered in the Republic of Singapore)

### STATEMENT OF PORTFOLIO

As at 31 December 2017

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By Geography (Summary)	Percentage of total net assets attributable to unitholders at 31 December 2017 %	Percentage of total net assets attributable to unitholders at 31 December 2016 %
<b>Quoted Equities</b>		
Bermuda Islands	8.29	2.33
Cayman Islands	23.61	19.35
China	7.75	4.88
Hong Kong SAR	0.58	6.11
India	10.31	11.43
Indonesia	3.14	13.24
Philippines	2.43	10.22
Singapore	3.67	2.40
South Korea	19.99	7.14
Taiwan	12.33	8.90
Thailand	5.36	6.95
<b>Total Quoted Equities</b>	<b>97.46</b>	<b>92.95</b>
<b>Portfolio of investments</b>	<b>97.46</b>	<b>92.95</b>
<b>Other net assets</b>	<b>2.54</b>	<b>7.05</b>
<b>Net assets attributable to unitholders</b>	<b>100.00</b>	<b>100.00</b>

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The accompanying notes form an integral part of these financial statements

**NIKKO AM SHENTON EMERGING ENTERPRISE DISCOVERY FUND***(Constituted under a Trust Deed registered in the Republic of Singapore)***STATEMENT OF PORTFOLIO***As at 31 December 2017*

<b>By Industry (Secondary)</b>	<b>Fair value at 31 December 2017 S\$</b>	<b>Percentage of total net assets attributable to unitholders at 31 December 2017 %</b>	<b>Percentage of total net assets attributable to unitholders at 31 December 2016 %</b>
Apparel	108,897	2.15	3.89
Auto Manufacturers	50,961	1.01	-
Auto Parts and Equipment	143,242	2.83	1.44
Banks	217,125	4.29	6.34
Biotechnology	-	-	2.76
Building Materials	-	-	3.27
Chemicals	182,281	3.60	1.37
Coal	72,087	1.42	1.12
Computers	67,407	1.33	-
Cosmetics/Personal Care	69,694	1.38	-
Diversified Financial Services	281,923	5.57	2.44
Electrical Component and Equipment	178,125	3.52	-
Electronics	483,489	9.55	8.78
Energy	-	-	1.11
Engineering and Construction	121,326	2.39	6.59
Entertainment	218,246	4.31	1.22
Food	96,268	1.90	1.53
Healthcare-Products	49,462	0.98	7.49
Healthcare-Services	-	-	3.45
Home Builders	-	-	4.73
Home Furnishings	257,171	5.08	-
Insurance	-	-	1.21
Internet	107,323	2.12	1.64
Investment Companies	-	-	0.94
Leisure Time	79,423	1.57	1.35
Lodging	206,211	4.07	-
Machinery-Construction and Mining	-	-	1.05
Media	79,763	1.57	2.06
Mining	259,689	5.13	2.22
Miscellaneous Manufacture	175,617	3.47	-
Packaging and Containers	-	-	1.60
Pharmaceuticals	412,835	8.15	5.44
Real Estate	173,064	3.42	4.79
Retail	381,484	7.53	3.87
Semiconductors	233,346	4.61	4.31
Software	228,575	4.51	3.93
Transportation	-	-	1.01
<b>Portfolio of investments</b>	<b>4,935,034</b>	<b>97.46</b>	<b>92.95</b>
<b>Other net assets</b>	<b>128,582</b>	<b>2.54</b>	<b>7.05</b>
<b>Net assets attributable to unitholders</b>	<b>5,063,616</b>	<b>100.00</b>	<b>100.00</b>

*The accompanying notes form an integral part of these financial statements*

## NIKKO AM SHENTON EMERGING ENTERPRISE DISCOVERY FUND

*(Constituted under a Trust Deed registered in the Republic of Singapore)*

### NOTES TO THE FINANCIAL STATEMENTS

*For the financial year ended 31 December 2017*

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These notes form an integral part of and should be read in conjunction with the accompanying financial statements.

#### 1. General

Nikko AM Shenton Emerging Enterprise Discovery Fund (the "Fund") is a Singapore domiciled fund, constituted by a Trust Deed dated 20 October 1997 as amended by Supplemental Deeds and Amended and Restated Deeds (collectively referred to as the "Deeds"). The Deeds are governed by the laws of the Republic of Singapore. The Trustee of the Fund is BNP Paribas Trust Services Singapore Limited (the "Trustee"). The Manager of the Fund is Nikko Asset Management Asia Limited (the "Manager").

There are three classes of units established within the Fund, namely the SGD Class, USD Class and RMB Class.

The classes may differ in terms of their class currency and the minimum subscription amounts applicable.

As of 31 December 2017, only units in the SGD Class have been issued.

#### 2. Significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below:

##### (a) Basis of preparation

The financial statements have been prepared under the historical-cost convention, as modified by the revaluation of financial assets held at fair value through profit or loss, and in accordance with the recommendations of Statement of Recommended Accounting Practice 7 "Reporting Framework for Unit Trusts" ("RAP 7") issued by the Institute of Singapore Chartered Accountants.

The Fund has adopted the following Singapore Financial Reporting Standards ("FRS") and related amendments in accordance with the recommendations of the RAP7:

##### (i) Consolidation and disclosure of interests in other entities

FRS 110 "Consolidated financial statements"  
FRS 112 "Disclosure of interests in other entities"  
Amendments to FRS 110, FRS 112 and FRS 27 "Investment entities"

FRS 110 and the amendments define an investment entity and introduce an exception from the consolidation requirements for investment entities.

FRS 112 and the amendments require entities to disclose significant judgements and assumptions made in determining whether the entity controls, jointly controls, significantly influences or has some interests in other entities. Entities are also required to provide disclosure around certain "structured entities". The amendments to FRS 112 introduce new disclosure requirements related to investment entities.

## NIKKO AM SHENTON EMERGING ENTERPRISE DISCOVERY FUND

(Constituted under a Trust Deed registered in the Republic of Singapore)

### NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2017

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#### 2. Significant accounting policies (continue)

##### (a) Basis of preparation (continue)

###### (ii) Offsetting financial assets and liabilities disclosures

Amendments to FRS 32 “Financial instruments: Presentation – Offsetting financial assets and financial liabilities”

Amendments to FRS 107 “Disclosures – Offsetting financial assets and financial liabilities”

The amendments to FRS 32 provide clarification on the offsetting criteria in FRS 32 and address inconsistencies in their application.

The amendments to FRS 107 require additional disclosures to enable users of financial statements to evaluate the effect or the potential effects of netting arrangements, including rights of set-off associated with an entity’s recognised financial assets and recognised financial liabilities, on the entity’s financial position.

The adoption of these new or amended FRS did not impact the Fund’s level of disclosures and accounting policies, and had no material effect on the amounts reported for the current or prior financial years.

##### (b) Recognition of income

Dividend income from investments is recognised when the right to receive payment is established.

Interest income is recognised on a time-proportion basis using the effective interest rate method.

##### (c) Investments

Investments are classified as financial assets at fair value through profit or loss.

###### (i) *Initial recognition*

Purchases of investments are recognised on the trade date. Investments are recorded at fair value on initial recognition.

###### (ii) *Subsequent measurement*

Investments are subsequently carried at fair value. Net change in fair value on investments are included in the Statement of Total Return in the year in which they arise.

###### (iii) *Derecognition*

Investments are derecognised on the trade date of disposal. The resultant realised gains and losses on the sales of investments are computed on the basis of the difference between the weighted average cost and selling price gross of transaction costs, and are taken up in the Statement of Total Return.

## NIKKO AM SHENTON EMERGING ENTERPRISE DISCOVERY FUND

(Constituted under a Trust Deed registered in the Republic of Singapore)

### NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2017

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#### 2. Significant accounting policies (continued)

##### (d) Basis of valuation of investments

The fair value of financial assets and liabilities traded in active markets is based on quoted market prices at the close of trading on the reporting date. The quoted market price used for investments held by the Fund is the last traded market price for both financial assets and financial liabilities where the last traded price falls within the bid-ask spread. In circumstances where the last traded price is not within the bid-ask spread, the Manager will determine the point within the bid-ask spread that is most representative of fair value.

##### (e) Receivables

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Receivables are initially recognised at their fair value and subsequently carried at amortised cost using the effective interest method, less accumulated impairment losses.

##### (f) Foreign currency translation

###### (i) *Functional and presentation currency*

The Fund qualifies as an authorised scheme under the Securities and Futures Act ("SFA") of Singapore and is offered to retail investors in Singapore. The Fund's activities are substantially based in Singapore, with subscriptions and redemptions of the units of the Fund denominated in Singapore Dollar ("S\$").

The performance of the Fund is measured and reported to the investors in Singapore Dollar. The Manager considers the Singapore Dollar as the currency which most faithfully represents the economic effects of the underlying transactions, events and conditions. The financial statements are expressed in Singapore Dollar, which is the Fund's functional and presentation currency.

###### (ii) *Transactions and balances*

Foreign currency monetary assets and liabilities are translated into Singapore Dollar at the rates of exchange prevailing at the date of the Statement of Financial Position. The net unrealised gain or loss is taken to the Statement of Total Return. Transactions during the year are recorded in Singapore Dollar at the rates of exchange ruling on transaction dates. All realised gains or losses are recognised in the Statement of Total Return.

#### 3. Income Tax

The Fund was granted the status of a Designated Unit Trust (DUT) in Singapore. The Manager and the Trustee of the Fund will ensure that the Fund fulfills its reporting obligations under the DUT Scheme.

Under the DUT Scheme, subject to certain conditions and reporting obligations being met, certain income of the DUT fund is not taxable in accordance with Sections 35(12) and 35(12A) of the Income Tax Act. Such income includes:

- (a) gains or profits derived from Singapore or elsewhere from the disposal of securities;

## NIKKO AM SHENTON EMERGING ENTERPRISE DISCOVERY FUND

(Constituted under a Trust Deed registered in the Republic of Singapore)

### NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2017

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#### 3. Income Tax (continued)

- (b) interest (other than interest for which tax has been deducted under Section 45 of the Income Tax Act);
- (c) dividends derived from outside Singapore and received in Singapore;
- (d) gains or profits derived from foreign exchange transactions, transactions in futures contracts, transactions in interest rate or currency forwards, swaps or option contracts and transactions in forwards, swaps or option contracts relating to any securities or financial index;
- (e) discount, prepayment fee, redemption premium and break cost from qualifying debt securities issued during the prescribed period; and
- (f) distributions from foreign unit trusts derived from outside Singapore and received in Singapore.

Income tax for the financial year ended on 31 December 2017 and 31 December 2016 comprises:

	2017 S\$	2016 S\$
Overseas income tax	<u>9,012</u>	6,878

The overseas income tax represents tax deducted at source on dividends derived from outside Singapore.

#### 4. Receivables

	2017 S\$	2016 S\$
Dividends receivable	1,632	1,175
Other receivables	-	50
	<u>1,632</u>	<u>1,225</u>

#### 5. Payables

	2017 S\$	2016 S\$
Payable to unitholders for cancellation of units	5,495	7,394
Amount due to the Manager	19,673	19,519
Valuation fee payable	2,697	2,697
Trustee fee payable	4,046	4,045
Registrar fee payable	1,214	1,213
Provision for audit fee	10,058	11,802
Amount due to custodian	529	517
	<u>43,712</u>	<u>47,187</u>

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## NIKKO AM SHENTON EMERGING ENTERPRISE DISCOVERY FUND

(Constituted under a Trust Deed registered in the Republic of Singapore)

### NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2017

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#### 5. Payables (continued)

Amount due to the Manager comprises of management fee payable to Nikko Asset Management Asia Limited. Trustee fee and registrar fee are payable to BNP Paribas Trust Services Singapore Limited. Valuation fee and custodian fee are payable to BNP Paribas Securities Services Singapore Branch.

#### 6. Units in issue

During the year ended 31 December 2017 and 31 December 2016, the number of units issued, redeemed and outstanding was as follows:

	2017	2016
Units at beginning of the financial year	2,466,452	2,824,719
Units created	100,949	41,144
Units cancelled	(381,931)	(399,411)
Units at end of the financial year	<u>2,185,470</u>	<u>2,466,452</u>
Net assets attributable to unitholders - S\$	5,063,616	4,636,404
Net asset value per unit - S\$	<u>2.317</u>	<u>1.880</u>

For subscriptions and redemptions and for various fee calculations, investments are stated at the last traded prices on the valuation day for the purpose of determining net asset value per unit. In circumstances where the last traded price is not within the bid-ask spread, the Manager will determine the point within the bid-ask spread that is most representative of fair value for reporting purpose.

A reconciliation of the net asset value as reported in the Statement of Financial Position to the net asset value as determined for the purpose of processing unit subscription and redemption is provided below:

	2017	2016
	S\$	S\$
Net assets attributable to unitholders per financial statements per unit	2.317	1.880
Effect for movement in the net asset value between the last dealing date and the end of the reporting period ^	-	-
Effect of adopting bid prices at fair value per unit	(0.002)	0.002
Net assets attributable to unitholders for issuing/redeeming per unit	<u>2.315</u>	<u>1.882</u>

^The net asset value for the purposes of processing unit subscription and redemption was established in accordance with the methodology indicated in the Fund's Prospectus. This item reflects the movement in net asset value between the last dealing date and the end of the reporting period due to accrual of operating expenses. In 2017 and 2016, the effect is less than 0.001.

## **NIKKO AM SHENTON EMERGING ENTERPRISE DISCOVERY FUND**

*(Constituted under a Trust Deed registered in the Republic of Singapore)*

### **NOTES TO THE FINANCIAL STATEMENTS**

*For the financial year ended 31 December 2017*

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#### **7. Financial risk management**

The Fund's activities expose it to a variety of risk, including but not limited to market risk (including currency risk, interest rate risk and price risk), liquidity risk and credit risk. The Manager is responsible for the implementation of the overall risk management programme, which seeks to minimise potential adverse effects on the Fund's financial performance. Specific guidelines on exposures to individual securities and certain industries and/or countries are in place as part of the overall financial risk management to reduce the Fund's exposures to these risks.

The Fund's objective is to achieve medium to long-term capital appreciation by investing primarily in listed equities of small to medium-sized companies in Asia ex-Japan, which in the Manager's opinion are undervalued.

The financial instruments are held in accordance with the published investment policies of the Fund and are managed accordingly to achieve the investment objectives.

##### **(a) Market risk - Price risk**

Price risk is the risk that arises from uncertainties about future prices of financial instruments.

The Fund's investment is substantially dependent on the changes of market prices. The Fund's overall market positions are monitored regularly so as to assess any changes in fundamentals and valuation. However, events beyond reasonable control of the Manager could affect the prices of the underlying investments and hence the net asset value of the Fund.

The Fund's market price risk is managed through diversification of the investment portfolio exposure across various geographies and industries in Asia ex-Japan.

As the Fund invests primarily in listed equities of small to medium-sized companies in Asia ex-Japan, the Manager is of the view that the price risk the Fund is best reflected by movements in its benchmark MSCI Asia ex-Japan Small Cap Index (the "Index").

As at 31 December 2017, an increase/decrease of Index components within the benchmark of MSCI Asia ex-Japan Small Cap by 7% (2016: 10%), with all other variables remaining constant, the net assets attributable to unitholders for the year would increase/decrease by approximately 8% (2016: 11%). The analysis was based on the assumptions that the Index components within the benchmark increased/decreased by a reasonable possible shift, with all other variables held constant and that the fair value of Fund's investments moved according to the beta. The benchmark percentage is revised annually depending on management's current view on market volatility and other relevant factors.

## **NIKKO AM SHENTON EMERGING ENTERPRISE DISCOVERY FUND**

*(Constituted under a Trust Deed registered in the Republic of Singapore)*

### **NOTES TO THE FINANCIAL STATEMENTS**

*For the financial year ended 31 December 2017*

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#### **7. Financial risk management (continued)**

##### **(b) Market risk - Interest rate risk**

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates (fair value risk).

Investment funds that invest in equity securities may be subject to interest rate risk as any interest rate change may affect the equity risk premium though at varying degrees. To manage this risk, the Manager analyses how interest rate changes may affect different industries and securities and then seeks to adjust the Fund's portfolio investments accordingly.

However, the effects of changes in interest rates on the Fund's portfolio may not be quantified as the relationship between the interest rates and the value of equity securities is indirect. Hence, no sensitivity analysis has been presented separately.

##### **(c) Market risk - Currency risk**

Currency risk is the risk that the value of financial instrument will fluctuate due to changes in foreign exchange rates.

To minimise currency risk, the Fund mainly holds its excess cash in its functional currency. For hedging purposes, the Fund may also enter into forward foreign exchange contracts.

**NIKKO AM SHENTON EMERGING ENTERPRISE DISCOVERY FUND**  
*(Constituted under a Trust Deed registered in the Republic of Singapore)*

**NOTES TO THE FINANCIAL STATEMENTS**  
*For the financial year ended 31 December 2017*

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**7. Financial risk management** (continued)

(c) **Market risk - Currency risk** (continued)

The tables below summarise the Fund's exposure to currency risks.

As at 31 December 2017	SGD S\$	USD S\$	HKD S\$	PHP S\$	INR S\$	IDR S\$	KRW S\$	THB S\$	TWD S\$	Total S\$
<b>Assets</b>										
Portfolio of investments	292,731	-	1,701,982	123,146	522,147	158,853	1,012,350	271,183	852,642	4,935,034
Receivables	-	-	-	-	-	-	1,632	-	-	1,632
Cash and bank balances	167,269	187	32	-	-	-	1	-	3,173	170,662
<b>Total assets</b>	<b>460,000</b>	<b>187</b>	<b>1,702,014</b>	<b>123,146</b>	<b>522,147</b>	<b>158,853</b>	<b>1,013,983</b>	<b>271,183</b>	<b>855,815</b>	<b>5,107,328</b>
<b>Liabilities</b>										
Payables	43,712	-	-	-	-	-	-	-	-	43,712
<b>Total liabilities</b>	<b>43,712</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>43,712</b>
<b>Net currency exposure</b>	<b>416,288</b>	<b>187</b>	<b>1,702,014</b>	<b>123,146</b>	<b>522,147</b>	<b>158,853</b>	<b>1,013,983</b>	<b>271,183</b>	<b>855,815</b>	

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**NIKKO AM SHENTON EMERGING ENTERPRISE DISCOVERY FUND**  
*(Constituted under a Trust Deed registered in the Republic of Singapore)*

**NOTES TO THE FINANCIAL STATEMENTS**  
*For the financial year ended 31 December 2017*

**7. Financial risk management** (continued)

(c) **Market risk - Currency risk** (continued)

As at 31 December 2016	SGD S\$	USD S\$	HKD S\$	PHP S\$	INR S\$	IDR S\$	KRW S\$	THB S\$	TWD S\$	Total S\$
<b>Assets</b>										
Portfolio of investments	180,002	-	1,240,499	473,964	529,732	613,849	331,135	322,404	618,038	4,309,623
Sales awaiting settlement	-	-	81,782	-	-	-	-	-	-	81,782
Receivables	50	-	-	483	-	-	692	-	-	1,225
Cash and bank balances	320,293	3,971	-	-	-	-	1	-	1,288	325,553
<b>Total assets</b>	<b>500,345</b>	<b>3,971</b>	<b>1,322,281</b>	<b>474,447</b>	<b>529,732</b>	<b>613,849</b>	<b>331,828</b>	<b>322,404</b>	<b>619,326</b>	<b>4,718,183</b>
<b>Liabilities</b>										
Payables	47,187	-	-	-	-	-	-	-	-	47,187
Purchases awaiting settlement	-	-	-	-	34,592	-	-	-	-	34,592
<b>Total liabilities</b>	<b>47,187</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>34,592</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>81,779</b>
<b>Net currency exposure</b>	<b>453,158</b>	<b>3,971</b>	<b>1,322,281</b>	<b>474,447</b>	<b>495,140</b>	<b>613,849</b>	<b>331,828</b>	<b>322,404</b>	<b>619,326</b>	

**NIKKO AM SHENTON EMERGING ENTERPRISE DISCOVERY FUND**  
(Constituted under a Trust Deed registered in the Republic of Singapore)

**NOTES TO THE FINANCIAL STATEMENTS**  
For the financial year ended 31 December 2017

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**7. Financial risk management** (continued)

(c) **Market risk - Currency risk** (continued)

Portfolio of investments, which is a significant item in the Statement of Financial Position, is exposed to currency risk and other price risk. The Manager has considered the impact of currency risk sensitivity on non-monetary assets as part of the price risk sensitivity analysis.

As at 31 December 2017 and 31 December 2016, the Fund does not hold substantial monetary assets/liabilities denominated in foreign currencies. Changes in foreign exchange rates on monetary assets/liabilities will not result in a significant change in the net asset value of the Fund. Hence, no separate sensitivity analysis on foreign currency risk has been presented.

(d) **Liquidity risk**

Liquidity risk is the risk of loss arising from the inability of the Fund to meet its obligations as and when they fall due without incurring unacceptable cost or losses.

The Fund is exposed to daily cash redemptions from unitholders. However, in accordance with the Fund's prospectus, minimum holdings and minimum redemption size are set.

To manage the liquidity risk, a cash buffer is maintained in the Fund and monitored for minimum cash balances to prevent any extensive disposition of assets which may occur at lower prices and overdraft situations to meet trade settlements and obligations.

The Fund's securities are considered readily realisable, as all the securities are listed on recognised stock exchanges.

The Fund's financial liabilities is contracted undiscounted cash flows for maturity groupings based on the remaining period at the Statement of Financial Position date to the contractual maturity date. As at 31 December 2017 and 31 December 2016, all liabilities are either payable on demand or due in less than 3 months. The impact of discounting is not significant.

	<b>Less than 3 months</b>	
	<b>As at</b>	<b>As at</b>
	<b>31 December 2017</b>	<b>31 December 2016</b>
	<b>S\$</b>	<b>S\$</b>
<b>Liabilities</b>		
Payables	<b>43,712</b>	47,187
Purchase awaiting settlement	-	34,592
<b>Contractual cash outflows</b>	<b>43,712</b>	<b>81,779</b>

## NIKKO AM SHENTON EMERGING ENTERPRISE DISCOVERY FUND

(Constituted under a Trust Deed registered in the Republic of Singapore)

### NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2017

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#### 7. Financial risk management (continued)

##### (e) Credit risk

Credit risk is the risk that a counterparty will be unable to fulfil its obligations to the Fund in part or in full as and when they fall due.

Concentrations of credit risk are minimised primarily by:

- ensuring counterparties as well as the respective credit limits are approved;
- ensuring there are controls in place to identify and assess the creditworthiness of counterparties and review such controls on a semi-annual basis; and
- ensuring that transactions are undertaken with a large number of counterparties.

All trade settlement with approved counterparties are on Delivery versus Payment and/or Receipt versus Payment basis, with the exception of initial public offerings, new issues and placement transactions.

Credit risk arises from cash and bank balances, and outstanding and committed transactions with brokers. The table below summarises the credit rating of banks and custodians in which the Fund's assets are held as at 31 December 2017 and 31 December 2016.

	<b>Credit Rating as at 31 December 2017</b>	Credit rating as at 31 December 2016	<b>Source of credit rating</b>
<b>Bank balance</b>			
- BNP Paribas Securities Services Singapore Branch	<b>A</b>	A	Standard & Poor's
<b>Custodian</b>			
- BNP Paribas Securities Services Singapore Branch	<b>A</b>	A	Standard & Poor's

The credit ratings are based on Long-Term Local Issuer Ratings published by the rating agency.

The maximum exposure to credit risk at the reporting date is the carrying amount of the financial assets.

##### (f) Capital management

The Fund's capital is represented by the net assets attributable to unitholders. The Fund strives to invest the subscriptions of redeemable participating units in investments that meet the Fund's investment objectives while maintaining sufficient liquidity to meet unitholder redemptions.

## NIKKO AM SHENTON EMERGING ENTERPRISE DISCOVERY FUND

(Constituted under a Trust Deed registered in the Republic of Singapore)

### NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2017

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#### 7. Financial risk management (continued)

##### (g) Fair value estimation

The Fund classifies fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

The following table analyses within the fair value hierarchy the Fund's financial assets and liabilities (by class) measured at fair value at 31 December 2017 and 31 December 2016:

##### 31 December 2017

	Level 1 S\$	Level 2 S\$	Level 3 S\$	Total S\$
<b>Assets</b>				
Financial assets designated at fair value through profit or loss at inception:				
- Quoted equities	4,935,034	-	-	4,935,034
	<u>4,935,034</u>	<u>-</u>	<u>-</u>	<u>4,935,034</u>

##### 31 December 2016

	Level 1 S\$	Level 2 S\$	Level 3 S\$	Total S\$
<b>Assets</b>				
Financial assets designated at fair value through profit or loss at inception:				
- Quoted equities	4,309,623	-	-	4,309,623
	<u>4,309,623</u>	<u>-</u>	<u>-</u>	<u>4,309,623</u>

Investments whose values are based on quoted market prices in active markets, and therefore classified within level 1, include active listed equities. The fund does not adjust the quoted price for these instruments.

Except for cash and bank balances which are classified as level 1, the Fund's assets and liabilities not measured at fair value at 31 December 2017 and 2016 have been classified as level 2. The carrying amounts of these assets and liabilities approximate their fair values as at the Statement of Financial Position date.

## NIKKO AM SHENTON EMERGING ENTERPRISE DISCOVERY FUND

(Constituted under a Trust Deed registered in the Republic of Singapore)

### NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2017

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#### 8. Related party transactions

In addition to related party information shown elsewhere in the financial statements, the following significant transactions took place during the financial year between the Fund and a related party at terms agreed between the parties and within the provisions of the Deeds.

	2017 S\$	2016 S\$
Bank balance held with related party of the Trustee	170,662	325,553

#### 9. Financial ratios

##### Expense ratio

		2017	2016
Total operating expenses	S\$	147,320	158,665
Average daily net asset value	S\$	4,689,871	4,931,937
<b>Total expense ratio<sup>1</sup></b>	<b>%</b>	<b>3.14</b>	<b>3.22</b>

##### Turnover ratio

		2017	2016
Lower of total value of purchases or sales	S\$	5,260,181	5,352,759
Average daily net asset value	S\$	4,689,871	4,931,937
<b>Total turnover ratio<sup>2</sup></b>	<b>%</b>	<b>112.16</b>	<b>108.53</b>

<sup>1</sup> The expense ratio has been computed based on the guidelines laid down by the Investment Management Association of Singapore ("IMAS"). The calculation of expense ratio at the financial year end was based on total operating expenses divided by the average net asset value for the year. The total operating expenses do not include (where applicable) brokerage and other transactions costs, performance fee, interest expense, distribution paid out to unitholders, foreign exchange gains/losses, front or back end loads arising from the purchase or sale of other funds and tax deducted at source or arising out of income received. The Fund does not pay any performance fee. The average net asset value is based on the daily balances.

<sup>2</sup> The portfolio turnover ratio is calculated in accordance with the formula stated in the Code on Collective Investment Schemes. The calculation of the portfolio turnover ratio was based on the lower of the total value of purchases or sales of the underlying investments, divided by the average daily net asset value.

## NIKKO AM SHENTON EMERGING ENTERPRISE DISCOVERY FUND

(Constituted under a Trust Deed registered in the Republic of Singapore)

### REPORT TO UNITHOLDERS

For the financial year ended 31 December 2017

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The following contains additional information relating to the Fund.

#### 1. Distribution of investments

Please refer to the Statement of Portfolio on pages 15 to 19.

#### 2. Credit rating of debt securities

Nil.

#### 3. Top 10 holdings

##### 10 Largest holdings at 31 December 2017

	Fair value S\$	Percentage of total net assets attributable to unitholders %
Nexteer Automotive Group Limited	143,242	2.83
Hanmi Pharm Company Limited	123,205	2.43
Shanghai Commercial & Savings Bank Limited	112,146	2.21
EGIS Technology Incorporated	111,889	2.21
Shangri-La Asia Limited	109,178	2.16
JNBY Design Limited	108,897	2.15
TK Group Holdings Limited	108,453	2.14
Nasmedia Company Limited	107,323	2.12
Valuetronics Holdings Limited	107,089	2.11
Haier Electronics Group Company Limited	106,094	2.10

## NIKKO AM SHENTON EMERGING ENTERPRISE DISCOVERY FUND

(Constituted under a Trust Deed registered in the Republic of Singapore)

### REPORT TO UNITHOLDERS

For the financial year ended 31 December 2017

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#### 3. Top 10 holdings (continued)

10 Largest holdings at 31 December 2016	Fair value S\$	Percentage of total net assets attributable to unitholders %
China Medical System Holdings Limited	167,040	3.60
8990 Holdings Incorporated	151,116	3.26
EGIS Technology Incorporated	142,547	3.07
Chularat Hospital Public Company Limited	125,073	2.70
ASM Pacific Technology Limited	117,869	2.54
Universal Medical Financial & Technical Advisory Services Company Limited	114,067	2.46
JNBY Design Limited	111,772	2.41
Dadi Early-Childhood Education Group Limited	109,555	2.37
Hindustan Zinc Limited	102,964	2.22
Indusind Bank Limited	96,313	2.08

#### 4. Exposure to financial derivatives

Nil.

#### 5. Global exposure to financial derivatives

Nil.

#### 6. Collateral

Nil.

#### 7. Securities lending or repurchase transactions

Nil.

#### 8. Investment in unit trusts, mutual funds and collective investment schemes

Nil.

## **NIKKO AM SHENTON EMERGING ENTERPRISE DISCOVERY FUND**

*(Constituted under a Trust Deed registered in the Republic of Singapore)*

### **REPORT TO UNITHOLDERS**

*For the financial year ended 31 December 2017*

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#### **9. Borrowings**

Nil.

#### **10. Amount of units created and cancelled for the financial year ended 31 December 2017**

	<b>S\$</b>
Units created	214,296
Units cancelled	(771,222)

#### **11. Turnover ratio**

Please refer to Note 9 of the Notes to the Financial Statements on page 32.

#### **12. Expense ratio**

Please refer to Note 9 of the Notes to the Financial Statements on page 32.

#### **13. Related party transactions**

Please refer to Note 8 of the Notes to the Financial Statements on page 32.

#### **14. Any other material information that will adversely impact the valuation of the fund**

Nil.

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Intermediaries Hotline: 1800 535 8025 / 65 6535 8025  
Website: [www.nikkoam.com.sg](http://www.nikkoam.com.sg)

Company registration number 198202562H

# SEMI-ANNUAL REPORT

For the financial period ending 30 June 2017

**Nikko AM Shenton  
Emerging Enterprise  
Discovery Fund**

**MANAGERS**

Nikko Asset Management Asia Limited  
12 Marina View, #18-02 Asia Square Tower 2  
Singapore 018961  
Company Registration No. 198202562H

**DIRECTORS**

Lim Say Boon  
Lim Soon Chong  
Junichi Sayato  
Seet Oon Hui Eleanor  
David Jonathan Semaya  
Yu-Ming Wang

**TRUSTEE**

BNP Paribas Trust Services Singapore Limited  
20 Collyer Quay, #01-01  
Singapore 049319

**AUDITORS**

PricewaterhouseCoopers LLP  
8 Cross Street, #17-00 PWC Building  
Singapore 048424

**REGISTRAR**

BNP Paribas Trust Services Singapore Limited  
20 Collyer Quay, #01-01  
Singapore 049319

**CUSTODIAN**

BNP Paribas Securities Services, operating through its Singapore branch  
20 Collyer Quay, #01-01  
Singapore 049319

This report is also available on our website ([www.nikkoam.com.sg](http://www.nikkoam.com.sg))

## PERFORMANCE SUMMARY

<b>Returns (%)</b>	<b>3 Mth</b>	<b>6 Mth</b>	<b>1 Yr</b>	<b>3 Yr</b>	<b>5 Yr</b>	<b>10 Yr</b>	<b>Since Inception</b>
Benchmark <sup>2</sup>	1.43	10.45	16.58	2.47	5.81	-0.57	4.17
Nikko AM Shenton Emerging Enterprise Discovery Fund <sup>1</sup>	1.21	6.64	11.50	0.32	2.13	-5.17	4.04

Source: © 2017 Morningstar. All Rights Reserved. & Nikko Asset Management Asia Limited, returns as at 30 June 2017. Returns are calculated on a NAV-NAV basis, SGD, and based on the assumption that all dividends and distributions are reinvested, if any. Returns for period in excess of 1 year are annualised. Past performance is not indicative of future performance.

<b>Returns (%)</b>	<b>3 Mth</b>	<b>6 Mth</b>	<b>1 Yr</b>	<b>3 Yr</b>	<b>5 Yr</b>	<b>10 Yr</b>	<b>Since Inception</b>
Benchmark <sup>2</sup>	1.43	10.45	16.58	2.47	5.81	-0.57	4.17
Nikko AM Shenton Emerging Enterprise Discovery Fund <sup>1</sup>	-3.85	1.31	5.92	-1.38	1.09	-5.66	3.76

Source: © 2017 Morningstar. All Rights Reserved. & Nikko Asset Management Asia Limited, returns as at 30 June 2017. Returns are calculated on a NAV-NAV basis, SGD, and based on the assumption that all dividends and distributions are reinvested, if any, and take into account of maximum initial sales charge and a realisation charge where applicable. Returns for period in excess of 1 year are annualised. Past performance is not indicative of future performance.

### **Inception date: 13 March 1998**

#### **Note:**

- (1) With effect from 17 October 2011, the Fund (formerly known as "Shenton Global Advantage Fund") was renamed as Nikko AM Shenton Global Advantage Fund. With effect from 1 October 2012, the investment focus and approach of the Fund was changed and the Fund was re-named Nikko AM Shenton Emerging Enterprise Discovery Fund.
- (2) Prior to 1 May 2017, the performance returns of the benchmark was calculated using price index methodology. With effect from 1 May 2017, it is calculated using net total return index methodology. With effect from 1 October 2012, the benchmark was changed from MSCI World Small Cap Index to MSCI AC Asia ex Japan Small Cap Index.

### **Portfolio Review**

#### ***Fund returned 6.64% in 1H17***

Over the review period, the Nikko AM Shenton Emerging Enterprise Discovery Fund (the "Fund") returned 6.64% (SGD terms, on NAV-NAV basis), underperforming the benchmark which returned 10.45%. Though the Fund delivered a decent absolute return over the first half of the year, it was short of the benchmark's return.

We start off this review with a quick tour of India, circa November 2016. Demonetisation, the term coined to describe the removal of old currency notes and the issue of new, was unexpected. The attempt to eradicate India's black market and force cash into legal accounts was met with real life mayhem and a stock market meltdown. In the ensuing confusion, the Fund scooped up stocks it had been watching but had not acted on due to valuation concerns. These included positions in Bajaj Auto, Federal Bank, Cholamandalam Investment & Finance, Hindustan Zinc, Castrol India and Crompton Greaves Electrical, effectively lifting the India allocation significantly. We have since taken profit in Federal Bank, Cholamandalam, Bajaj (weaker sales and competition) and Hindustan Zinc but continue to hold the rest.

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On the back of incipient signs of an economic recovery in the US and the bottoming of oil prices below USD30 per barrel and then the fiscal stimulus by China in late 2015, commodities began rallying. In the early stages of the cycle, the Fund had missed opportunities but nevertheless managed to gain exposure latterly via Hindustan Zinc (profit taken), China Molybdenum (mainly copper and cobalt), United Tractors and ITMG (coal miner). China Moly has one of the largest copper deposits and is a producer of cobalt, a material that is widely used in electric vehicle batteries. We continue to hold this stock but have taken some profit as recent stock price gains begin to recognise the value in its copper mines. Though late to the coal price rally, the investment in ITMG has delivered healthy gains and it is beginning to reflect its strong cash flow business that pays shareholders a dividend yield of over 7%.

After a spate of meetings and conference calls with the management of various companies in China and Hong Kong, the Fund identified several firms that we believe will benefit from rising consumer demand and/or cost relief from rent reductions. Stocks we invested in were Haier Electronics, the distributor of selected Haier's white goods; Luk Fook Holdings, a gold and jewellery dealer primarily in Hong Kong/China; and Lifestyle Holdings, with its two main strategically located SOGO stores in Hong Kong. All have endured declines in profitability over the last 12-24 months due to retail softness and burgeoning rentals (except Lifestyle as it owns its own space). They were also trading at reasonable valuations with sustainable returns on equity (ROEs). We particularly like Luk Fook's strategy of introducing gem sets to appeal to a wider audience.

The better consumption trend we were noticing did not confine itself to smaller ticket items. SUVs have been gaining market share on a global basis from the traditional family passenger sedan. We had a good outcome from a meeting with Geely, a Chinese automobile manufacturer with an impressive line-up in SUVs. Sales have been growing significantly for the company with the backing of its parent Zhejiang Geely Auto (owner of Volvo passenger cars). The stock has done well for the Fund since it was purchased at about 12x price-to-earnings ratio (PER) with potential ROE in excess of 20%.

Chinese property stocks were among the best performers during the first six months of this year. That said, we were unwilling to invest in heavily-indebted companies with large inventories of unsold homes and a constant overhang of regulatory risks. Compounding our plight in property were the investments in Summarecon (Indonesian residential), Puradelta (Indonesia Industrial property) and 8990 Holdings (Philippines low cost residential). Our enthusiasm for a pickup in sales for both Indonesian and Philippine developers proved wanting despite initial indications that the worst is over. We exited Puradelta and 8990 during the period under review and Summarecon shortly after. Elsewhere in the property sector, India has introduced its version of affordable housing via interest rate subsidies and incentives for builders. We believe this will underpin housing demand for the medium to long term, and accordingly invested in housing finance companies Dewan Housing and GRUH Finance. In property development, we introduced Prestige Estates, an established developer of residential, retail, commercial properties and townships mostly in South India.

Moving on from the old economy to the new, the rise of FANG (Facebook, Amazon, Netflix, Google) is not without its Asian equivalent in the likes of behemoths Tencent, Alibaba and Baidu. In that sphere, the Fund made investments in Merry Electronics (wireless earphones), Parade Tech (fabless mixed signal IC designer), Wistron (computers/servers) and Nasmedia (Internet/mobile advertising). These have done well and we continue to hold them.

On the other hand, the Fund's exposure to construction companies in Indonesia detracted from performance. While the sector appeared poised for bumper government contracts particularly following the successful tax amnesty programme, successive delays in both direct and indirect funding raised uncertainty. We exited Acset during the period under review and Adhi Karya shortly after. Still in Indonesia, we met with a new generation of management in Ramayana and were impressed with the strategy to refresh the low-end retailer. Though we recognise that this is likely to be a multi-year strategy, we decided to reduce the position after poor Lebaran sales suggested that short term success in the new format could prove more challenging than our initial expectations. We retain a smaller position based on medium to long term prospects. The investment in IMAX China also disappointed, given China's solid box office growth over

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the last five years. With its premium experience, IMAX seemed well placed to capture China's insatiable appetite for affordable entertainment particularly with a strong 2017 line-up of Hollywood blockbusters on offer. Our meeting with management did not suggest otherwise. Things started to fray with poor stock price performance after a secondary offer of shares in April. On a review of the stock, we learned that IMAX had possibly missed out on several successful box office films (not picked for screening in IMAX) and the stock looked overpriced if true. The underperformance of the stock had alerted us to a review which led to its sale.

### **Market Review**

Better global economic data underpinned market rallies in the first half of the year. Though US politics produced mostly negative headline news, the cyclical strength of the Chinese economy was reassuring to investors. Supplementing China's stronger than expected GDP were better leading economic indicators out of the US and Europe. US political antics, European election uncertainties, Japan ruling party losses, impeachment of the Korea president and the gubernatorial loss of the popular Jakarta incumbent were overwhelmed by investors' risk taking behaviour.

Not unexpectedly, the favourable macro environment and strong year-to-date rally of more than 15% for the broader Asia ex-Japan markets continued to feed on each other, attracting sizeable inflows into emerging markets (EM) and Asian equities. A bond market wobble and two US interest rate hikes this year have been unable to stymie the equity market advance. Though inflation data started to disappoint the most ardent believers of inflation-targeting policies, there was no immediate danger of deflationary trends reigniting with central banks worldwide expressing a reluctance for more monetary stimulus. In contrast, the uniformly hawkish statements have been interpreted as caused by positive economies.

Once again, the small cap space played second fiddle to large cap mainstream stocks. The performance gap between the widely followed Asia ex-Japan index and its small cap brethren widened in the period under review. IT and Financials including Real Estate were strong performers, underscoring the perception of "bigger is better". Consequently, North Asia with its concentration of Tech companies in Taiwan and Korea outperformed the mostly commodity-based economies of South Asia. India put up a credible performance as the effects of the end-2016 demonetisation exercise reversed. The ruling Bharatiya Janata Party (BJP) also bolstered its political position, winning crucial by-elections and continuing reforms, most notably the passage of the GST bill. It is arguable that the demonetisation and lift in confidence have encouraged widespread interest in the stock market. Rural India also got on the bandwagon, with Indian small caps returning twice as much as the main index over the period.

ASEAN, the erstwhile darlings of Asia, gave up performance as slower growth from a retreat in commodity prices and slower disbursements of government funds resulted in less robust earnings prospects compared to North Asia.

### **Market Outlook and Strategy**

The much-telegraphed and anticipated US rate hike had little bearing on Asian markets. Though politics dominated the news at the beginning of the year, the novelty of a first-time politician in the White House is beginning to wear off. Even the actions of North Korea elicited minimal reactions from investors. With politics firmly on the back burner, it was left to the real factors such as GDP growth, inflation and corporate profitability to drive market direction.

On that score, the outlook for economic growth is promising and corporate results in Asia have been revised higher to one of their strongest levels in recent years. Global leading economic indicators have been supportive of equity markets and with China showing signs of economic stability and arguably even accelerating growth, the stellar stock market performance seems warranted. Investing in Asia was made all the more attractive by a USD weakened by the policy inertia of a combative US Congress.

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Against a favourable macro backdrop, the second half of the year will bring with it renewed scrutiny on company profitability especially in light of higher expectations. However, we are confident that forecast earnings will prove robust. As an example, recent macro data on a much beleaguered sector, Hong Kong retail, suggest that the rising confidence we noted is translating into expenditure as prominent Hong Kong retail outlets reported better than expected results.

The more hawkish tone from developed market central banks does inject a note of caution, though we note that better economies are behind these calls rather than potential inflation, for now. Inflation has risen but not unduly so, with energy and food along with wages playing a dampening role. As we have previously noted, monetary policy will unlikely be used and instead governments across Asia increasingly recognise that different policy tools are required at this stage of the economic cycle.

The rally that gripped the market in 2016 has generously broadened to more sectors. Erstwhile leaders Commodities, Energy and heavy cyclical stocks have moderated. Market rotation to other sectors suggest healthy risk appetites. Finally a brief word on politics and market hubris. The inherent risks posed by geopolitics and central bank actions must be balanced against an overly aggressive portfolio stance. Political disruptions in the US, North Korea, Brexit, populism movements, trade protectionism, and faster than expected interest rate hikes are some lingering factors that can be potentially disruptive to a stock market utopia. Nevertheless, the balance of the year looks promising as stock prices play "catch-up" with earnings. Your managers will be relentless in looking for unique investment opportunities in Asia's small cap space.

## IMPORTANT INFORMATION

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This document is for information only with no consideration given to the specific investment objective, financial situation and particular needs of any specific person. Any securities mentioned herein are for illustration purposes only and should not be construed as a recommendation for investment. You should seek advice from a financial adviser before making any investment. In the event that you choose not to do so, you should consider whether the investment selected is suitable for you. Investments in unit trusts are not deposits in, obligations of, or guaranteed or insured by Nikko Asset Management Asia Limited (**"Nikko AM Asia"**).

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### **For Hong Kong Investors**

The fund is only offered to professional investors and is not authorized by the Securities and Futures Commission in Hong Kong. The contents of this document have not been reviewed by any regulatory authority in Hong Kong. You are advised to exercise caution in relation to this document. If you are in any doubt about any of the contents, you should obtain independent professional advice.

Nikko Asset Management Asia Limited. Registration Number 198202562H

## SOFT DOLLAR COMMISSIONS/ARRANGEMENTS

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### Appointment of soft dollar brokers

The Managers will only appoint soft dollar brokers onto their broker panel after they have ensured that:

- a) full disclosure of the practice of accepting soft dollars is made;
- b) the commission rates charged are comparable with the market rates;
- c) there is no conflict of interest;
- d) the soft dollar credits are used only for clearly defined services;
- e) at all times trades are executed through the respective brokers only on the basis of best execution regardless whether soft dollar benefits will accrue. Best execution shall include competitive prices with smooth execution ability; and
- f) relevant regulations and guidelines are complied with.

The procedures for the appointment of the brokers shall be no different from that of normal full service brokers.

### Execution and allocation

If the Trustee objects to the use of the soft dollar brokers, the trades of the Fund shall be segregated from the rest of the trades that are executed through the relevant soft dollar broker(s). The Managers will execute trades for such accounts only with authorised full service brokers.

It is the responsibility of the Managers to ensure that the allocation quotas are adhered to. In addition, the Managers will monitor the execution ability of the soft dollar brokers and assign the business strictly on a "best execution" basis.

Subject to the provisions of the Code\*, in their management of the Fund, the Managers may receive soft dollar commissions from, or may enter into soft dollar arrangements with, stockbrokers who execute trades on behalf of the Fund and the soft dollars received would be restricted to the following kinds of services:

- a) specific advice as to the advisability of dealing in, or of the value of any investments;
- b) research and advisory services;
- c) economic and political analysis;
- d) portfolio analysis including valuation and portfolio measurements;
- e) market analysis;
- f) data and quotation services;
- g) computer hardware or software that are used to support the investment decision making process, the giving of advice, or the conduct of research or analysis; and
- h) custodial services in relation to the investments managed for clients.

The following are, however, prohibited:

- a) travel, accommodation and entertainment expenses;
- b) general administrative goods and services including office equipment and premises;
- c) membership fees;
- d) employee salaries;
- e) direct money payments / rebates.

The Managers will retain the records of the payments made using soft dollar commissions.

The Managers of the Nikko AM Shenton Emerging Enterprise Discovery Fund (the "Fund") will not accept or enter into soft-dollar commissions / arrangements unless:

- such soft-dollar commissions / arrangements would in the opinion of the Managers, assist the Managers in their management of the Fund;
- the Managers shall ensure at all times that best execution is carried out for the transactions; and
- no unnecessary trades are entered into in order to qualify for such soft-dollar commissions / arrangements.

The Managers of the Nikko AM Shenton Emerging Enterprise Discovery Fund will comply with applicable regulatory and industry standards on soft dollars.

\* The "Code" means the Code on Collective Investment Schemes issued by the Authority pursuant to the Securities and Futures Act, as may be amended, modified, or supplemented from time to time by the Authority.

**NIKKO AM SHENTON EMERGING ENTERPRISE DISCOVERY FUND***(Constituted under a Trust Deed registered in the Republic of Singapore)***STATEMENT OF TOTAL RETURN***For the financial period from 01 January 2017 to 30 June 2017 (unaudited)*

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	<b>30 June 2017</b>	30 June 2016
	<b>S\$</b>	S\$
<b>Income</b>		
Dividend	<b>53,735</b>	48,880
Interest on cash and bank balances	<b>3</b>	-
	<b>53,738</b>	48,880
<b>Less: Expenses</b>		
Management fee	<b>35,021</b>	37,261
Registrar fee	<b>2,900</b>	2,912
Trustee fee	<b>7,439</b>	7,480
Custody fee	<b>1,612</b>	1,375
Audit fee	<b>5,884</b>	5,945
Valuation fee	<b>4,959</b>	4,987
Transaction costs	<b>23,684</b>	24,015
Other expenses	<b>13,583</b>	11,633
	<b>95,082</b>	95,608
<b>Net losses</b>	<b>(41,344)</b>	(46,728)
<b>Net gains or losses on value of investments</b>		
Net gains/(losses) on investments	<b>362,833</b>	(423,964)
Net foreign exchange losses	<b>(7,943)</b>	(15,316)
	<b>354,890</b>	(439,280)
<b>Total return/(deficit) for the financial period before income tax</b>	<b>313,546</b>	(486,008)
<b>Less: Income tax</b>	<b>(5,156)</b>	(3,275)
<b>Total return/(deficit) for the financial period after income tax</b>	<b>308,390</b>	(489,283)

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## NIKKO AM SHENTON EMERGING ENTERPRISE DISCOVERY FUND

(Constituted under a Trust Deed registered in the Republic of Singapore)

### STATEMENT OF FINANCIAL POSITION

As at 30 June 2017 (unaudited)

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	30 June 2017	31 December 2016
	S\$	S\$
<b>ASSETS</b>		
Portfolio of investments	4,559,247	4,309,623
Sales awaiting settlement	38,223	81,782
Receivables	4,893	1,225
Cash and bank balances	193,884	325,553
<b>Total assets</b>	<b>4,796,247</b>	<b>4,718,183</b>
<b>LIABILITIES</b>		
Payables	72,432	47,187
Purchases awaiting settlement	84,536	34,592
<b>Total liabilities</b>	<b>156,968</b>	<b>81,779</b>
<b>EQUITY</b>		
Net assets attributable to unitholders	<b>4,639,279</b>	<b>4,636,404</b>

**NIKKO AM SHENTON EMERGING ENTERPRISE DISCOVERY FUND**

(Constituted under a Trust Deed registered in the Republic of Singapore)

**STATEMENT OF MOVEMENTS OF UNITHOLDERS' FUNDS**

For the financial period from 01 January 2017 to 30 June 2017 (unaudited)

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	30 June 2017	31 December 2016
	S\$	S\$
<b>Net assets attributable to unitholders at the beginning of the financial period/year</b>	<b>4,636,404</b>	5,572,353
<b>Operations</b>		
Change in net assets attributable to unitholders resulting from operations	<b>308,390</b>	(273,860)
<b>Unitholders' contributions/(withdrawals)</b>		
Creation of units	<b>76,277</b>	76,178
Cancellation of units	<b>(381,792)</b>	(738,267)
Change in net assets attributable to unitholders resulting from net creation and cancellation of units	<b>(305,515)</b>	(662,089)
Total increase in net assets attributable to unitholders	<b>2,875</b>	(935,949)
<b>Net assets attributable to unitholders at the end of the financial period/year</b>	<b>4,639,279</b>	<b>4,636,404</b>

**NIKKO AM SHENTON EMERGING ENTERPRISE DISCOVERY FUND***(Constituted under a Trust Deed registered in the Republic of Singapore)***STATEMENT OF PORTFOLIO***As at 30 June 2017 (unaudited)*

<b>By Geography (Primary)</b>	<b>Holdings at 30 June 2017</b>	<b>Fair value at 30 June 2017 S\$</b>	<b>Percentage of total net assets attributable to unitholders at 30 June 2017 %</b>
<b>Quoted Equities</b>			
<b>BERMUDA ISLANDS</b>			
Haier Electronics Group Company Limited	29,000	103,833	2.24
Luk Fook Holdings International Limited	17,000	80,058	1.73
Shangri-La Asia Limited	40,000	93,409	2.01
Valuetronics Holdings Limited	144,980	115,259	2.48
<b>Total BERMUDA ISLANDS</b>		<b>392,559</b>	<b>8.46</b>
<b>CAYMAN ISLANDS</b>			
ASM Pacific Technology Limited	5,800	107,925	2.33
China Medical System Holdings Limited	49,000	116,673	2.51
China State Construction International Holdings Limited	44,000	103,682	2.23
Dadi Early-Childhood Education Group Limited	13,000	101,795	2.20
Geely Automobile Holdings Limited	35,000	103,957	2.24
JNBY Design Limited	81,500	93,292	2.01
Lifestyle International Holdings Limited	49,500	93,593	2.02
MGM China Holdings Limited	34,000	104,105	2.24
Nexteer Automotive Group Limited	48,000	103,625	2.23
Parade Technologies Limited	3,000	50,784	1.10
TK Group Holdings Limited	130,000	72,914	1.58
VHQ Media Holdings Limited	12,000	83,645	1.80
<b>Total CAYMAN ISLANDS</b>		<b>1,135,990</b>	<b>24.49</b>
<b>CHINA</b>			
Anhui Conch Cement Company Limited	18,500	88,590	1.91
China Molybdenum Company Limited	192,000	101,255	2.18
Travelsky Technology Limited	24,000	97,360	2.10
YiChang HEC ChangJiang Pharmaceutical Company Limited	23,200	67,845	1.46
<b>Total CHINA</b>		<b>355,050</b>	<b>7.65</b>
<b>HONG KONG SAR</b>			
Universal Medical Financial & Technical Advisory Services Company Limited	95,500	105,107	2.27
<b>Total HONG KONG SAR</b>		<b>105,107</b>	<b>2.27</b>
<b>INDIA</b>			
Castrol India Limited	10,231	87,915	1.89
Crompton Greaves Consumer Electricals Limited	18,114	87,782	1.89
Dewan Housing Finance Corporation Limited	5,336	49,609	1.07
GRUH Finance Limited	8,098	76,935	1.66
IndusInd Bank Limited	2,963	93,545	2.02
Prestige Estates Projects Limited	14,567	78,444	1.69
<b>Total INDIA</b>		<b>474,230</b>	<b>10.22</b>
<b>INDONESIA</b>			
Adhi Karya Persero TBK PT	300,700	66,791	1.44
Indo Tambangraya Megah TBK PT	28,600	51,116	1.10
Ramayana Lestari Sentosa TBK PT	537,000	67,961	1.47
Summarecon Agung TBK PT	537,000	71,567	1.54
United Tractors TBK PT	21,300	60,404	1.30
Waskita Beton Precast TBK PT	895,900	44,427	0.96
Wijaya Karya Persero TBK PT	280,656	64,079	1.38
<b>Total INDONESIA</b>		<b>426,345</b>	<b>9.19</b>

**NIKKO AM SHENTON EMERGING ENTERPRISE DISCOVERY FUND***(Constituted under a Trust Deed registered in the Republic of Singapore)***STATEMENT OF PORTFOLIO***As at 30 June 2017 (unaudited)***By Geography (Primary)** (continued)

	Holdings at 30 June 2017	Fair value at 30 June 2017 S\$	Percentage of total net assets attributable to unitholders at 30 June 2017 %
<b>Quoted Equities</b> (continued)			
<b>PHILIPPINES</b>			
Bloomberry Resorts Corporation	316,100	79,784	1.72
Shakey's Pizza Asia Ventures Incorporation	114,200	40,385	0.87
<b>Total PHILIPPINES</b>		<b>120,169</b>	<b>2.59</b>
<b>SINGAPORE</b>			
Keppel Telecommunications & Transportation Limited	27,200	47,192	1.01
Yoma Strategic Holdings Limited	110,800	64,818	1.40
<b>Total SINGAPORE</b>		<b>112,010</b>	<b>2.41</b>
<b>SOUTH KOREA</b>			
Clio Cosmetics Company Limited	1,436	67,050	1.44
Coway Company Limited	756	94,617	2.04
Green Cross Corporation	218	45,779	0.99
Halla Holdings Corporation	892	68,915	1.49
Hanmi Pharm Company Limited	129	57,904	1.25
Incross Company Limited	755	47,155	1.02
Kiwoom Securities Company Limited	950	106,778	2.30
Modetour Network Incorporated	1,399	53,285	1.15
Nasmedia Company Limited	1,580	102,675	2.21
SK Bioland Company Limited	3,220	69,362	1.49
<b>Total SOUTH KOREA</b>		<b>713,520</b>	<b>15.38</b>
<b>TAIWAN</b>			
Egis Technology Incorporation	12,000	112,975	2.44
Hu Lane Associate Incorporation	10,000	79,888	1.72
Merry Electronics Company Limited	7,000	59,882	1.29
Shanghai Commercial & Savings Bank Limited	46,035	65,343	1.41
TCI Company Limited	9,000	78,824	1.70
Visual Photonics Epitaxy Company Limited	18,000	49,698	1.07
Wistron Corporation	58,000	81,250	1.75
<b>Total TAIWAN</b>		<b>527,860</b>	<b>11.38</b>
<b>THAILAND</b>			
KCE Electronics Public Company Limited	11,000	48,375	1.04
Major Cineplex Group Public Company Limited	72,200	98,767	2.13
Sino-Thai Engineering & Construction Public Company Limited	43,800	49,265	1.06
<b>Total THAILAND</b>		<b>196,407</b>	<b>4.23</b>
<b>Total Quoted Equities</b>		<b>4,559,247</b>	<b>98.27</b>
<b>Portfolio of investments</b>		<b>4,559,247</b>	<b>98.27</b>
<b>Other net assets</b>		<b>80,032</b>	<b>1.73</b>
<b>Net assets attributable to unitholders</b>		<b>4,639,279</b>	<b>100.00</b>

## NIKKO AM SHENTON EMERGING ENTERPRISE DISCOVERY FUND

(Constituted under a Trust Deed registered in the Republic of Singapore)

### STATEMENT OF PORTFOLIO

As at 30 June 2017 (unaudited)

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#### By Geography (Summary)

	Percentage of total net assets attributable to unitholders at 30 June 2017 %	Percentage of total net assets attributable to unitholders at 31 December 2016 %
<b>Quoted Equities</b>		
Bermuda Islands	8.46	2.33
Cayman Islands	24.49	19.35
China	7.65	4.88
Hong Kong SAR	2.27	6.11
India	10.22	11.43
Indonesia	9.19	13.24
Philippines	2.59	10.22
Singapore	2.41	2.40
South Korea	15.38	7.14
Taiwan	11.38	8.90
Thailand	4.23	6.95
<b>Total Quoted Equities</b>	<b>98.27</b>	<b>92.95</b>
<b>Portfolio of investments</b>	<b>98.27</b>	<b>92.95</b>
<b>Other net assets</b>	<b>1.73</b>	<b>7.05</b>
<b>Net assets attributable to unitholders</b>	<b>100.00</b>	<b>100.00</b>

**NIKKO AM SHENTON EMERGING ENTERPRISE DISCOVERY FUND***(Constituted under a Trust Deed registered in the Republic of Singapore)***STATEMENT OF PORTFOLIO***As at 30 June 2017 (unaudited)*

<b>By Industry (Secondary)</b>	<b>Fair value at 30 June 2017 S\$</b>	<b>Percentage of total net assets attributable to unitholders at 30 June 2017 %</b>	<b>Percentage of total net assets attributable to unitholders at 31 December 2016 %</b>
Advertising	47,155	1.02	-
Apparel	93,292	2.01	3.89
Auto Manufacturers	103,957	2.24	-
Auto Parts & Equipment	172,540	3.72	1.44
Banks	158,888	3.42	6.34
Biotechnology	69,362	1.50	2.76
Building Materials	88,590	1.91	3.27
Chemicals	87,915	1.89	1.37
Coal	51,116	1.10	1.12
Computers	81,250	1.75	-
Cosmetics/Personal Care	67,050	1.45	-
Diversified Financial Services	233,322	5.03	2.44
Electronics	416,379	8.97	8.78
Energy	-	-	1.11
Engineering and Construction	328,244	7.08	6.59
Entertainment	178,551	3.85	1.22
Food	-	-	1.53
Healthcare-Products	221,780	4.78	7.49
Healthcare-Services	-	-	3.45
Home Builders	-	-	4.73
Home Furnishings	286,232	6.17	-
Insurance	-	-	1.21
Internet	102,675	2.21	1.64
Investment Companies	-	-	0.94
Leisure Time	53,285	1.15	1.35
Lodging	197,514	4.26	-
Machinery-Construction & Mining	60,404	1.30	1.05
Media	83,645	1.80	2.06
Mining	101,255	2.18	2.22
Miscellaneous Manufacture	72,914	1.57	-
Packaging & Containers	-	-	1.60
Pharmaceuticals	250,352	5.40	5.44
Real Estate	214,829	4.63	4.79
Retail	281,997	6.08	3.87
Semiconductors	208,407	4.49	4.31
Software	199,155	4.29	3.93
Transportation	47,192	1.02	1.01
<b>Portfolio of investments</b>	<b>4,559,247</b>	<b>98.27</b>	<b>92.95</b>
<b>Other net assets</b>	<b>80,032</b>	<b>1.73</b>	<b>7.05</b>
<b>Net assets attributable to unitholders</b>	<b>4,639,279</b>	<b>100.00</b>	<b>100.00</b>

## NIKKO AM SHENTON EMERGING ENTERPRISE DISCOVERY FUND

(Constituted under a Trust Deed registered in the Republic of Singapore)

### REPORT TO UNITHOLDERS

For the financial period from 01 January 2017 to 30 June 2017 (unaudited)

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The following contains additional information relating to the Fund.

**1. Distribution of investments**

Please refer to the Statement of Portfolio on pages 11 to 14.

**2. Credit rating of debt securities**

Nil.

**3. Top 10 holdings**

**10 Largest holdings at 30 June 2017**

	Fair value S\$	Percentage of total net assets attributable to unitholders %
<b>China Medical System Holdings Limited</b>	<b>116,673</b>	<b>2.51</b>
<b>Valuetronics Holdings Limited</b>	<b>115,259</b>	<b>2.48</b>
<b>Egis Technology Incorporation</b>	<b>112,975</b>	<b>2.44</b>
<b>ASM Pacific Technology Limited</b>	<b>107,925</b>	<b>2.33</b>
<b>Kiwoom Securities Company Limited</b>	<b>106,778</b>	<b>2.30</b>
<b>Universal Medical Financial &amp; Technical Advisory Services Company Limited</b>	<b>105,107</b>	<b>2.27</b>
<b>MGM China Holdings Limited</b>	<b>104,105</b>	<b>2.24</b>
<b>Geely Automobile Holdings Limited</b>	<b>103,957</b>	<b>2.24</b>
<b>Haier Electronics Group Company Limited</b>	<b>103,833</b>	<b>2.24</b>
<b>China State Construction International Holdings Limited</b>	<b>103,682</b>	<b>2.23</b>

## NIKKO AM SHENTON EMERGING ENTERPRISE DISCOVERY FUND

(Constituted under a Trust Deed registered in the Republic of Singapore)

### REPORT TO UNITHOLDERS

For the financial period from 01 January 2017 to 30 June 2017 (unaudited)

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#### 3. Top 10 holdings (continued)

10 Largest holdings at 30 June 2016	Fair value S\$	Percentage of total net assets attributable to unitholders %
China Medical System Holdings Limited	225,189	4.66
Chularat Hospital Public Company Limited	172,985	3.58
8990 Holdings Incorporation	151,927	3.14
Sinosoft Technology Group Limited	141,015	2.92
Canvest Environmental Protection Group Company Limited	129,943	2.69
3SBio Incorporation	122,063	2.52
Emami Limited	117,875	2.44
Q&M Dental Group Singapore Limited	105,840	2.19
Chroma ATE Incorporation	105,741	2.19
Zhuzhou CRRC Times Electric Company Limited	103,469	2.14

#### 4. Exposure to financial derivatives

Nil.

#### 5. Global exposure to financial derivatives

Nil.

#### 6. Collateral

Nil.

#### 7. Securities lending or repurchase transactions

Nil.

#### 8. Investment in unit trusts, mutual funds and collective investment schemes

Nil.

## NIKKO AM SHENTON EMERGING ENTERPRISE DISCOVERY FUND

(Constituted under a Trust Deed registered in the Republic of Singapore)

### REPORT TO UNITHOLDERS

For the financial period from 01 January 2017 to 30 June 2017 (unaudited)

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#### 9. Borrowings

Nil.

#### 10. Amount of units created and cancelled for the financial period ended 30 June 2017

	<b>S\$</b>
Units created	76,277
Units cancelled	(381,792)

#### 11. Turnover ratio

		<b>30 June 2017</b>	30 June 2016
Lower of total value of purchases or sales	S\$	<b>2,763,926</b>	2,752,985
Average daily net asset value	S\$	<b>4,707,210</b>	4,974,241
<b>Total turnover ratio</b> <sup>Note</sup>	%	<b>58.72</b>	55.34

Note: The portfolio turnover ratio is calculated in accordance with the formula stated in the Code on Collective Investment Schemes. The calculation of the portfolio turnover ratio was based on the lower of the total value of purchases or sales of the underlying investments, divided by the average daily net asset value. In line with Statement of Recommended Accounting Practice 7 "Reporting framework for Unit Trusts" ("RAP 7") issued by the Institute of Singapore Chartered Accountants in June 2016, total value of purchases or sales for the current year do not include brokerage and other transaction costs.

#### 12. Expense ratio

		<b>30 June 2017</b>	30 June 2016
Total operating expenses	S\$	<b>158,470</b>	150,785
Average daily net asset value	S\$	<b>4,800,373</b>	5,060,362
<b>Total expense ratio</b> <sup>Note</sup>	%	<b>3.30</b>	2.98

Note: The expense ratio has been computed based on the guidelines laid down by the Investment Management Association of Singapore ("IMAS"). The calculation of the expense ratio at financial year end was based on total operating expenses divided by the average net asset value for the year. The total operating expenses do not include (where applicable) brokerage and other transactions costs, performance fee, interest expense, distribution paid out to unitholders, foreign exchange gains/losses, front or back end loads arising from the purchase or sale of other funds and tax deducted at source or arising out of income received. The Fund does not pay any performance fee. The average net asset value is based on the daily balances.

## NIKKO AM SHENTON EMERGING ENTERPRISE DISCOVERY FUND

*(Constituted under a Trust Deed registered in the Republic of Singapore)*

### REPORT TO UNITHOLDERS

*For the financial period from 01 January 2017 to 30 June 2017 (unaudited)*

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#### 13. Related party transactions

The Manager of the Fund is Nikko Asset Management Asia Limited, a subsidiary of Nikko Asset Management International Limited. The Trustee of the Fund is BNP Paribas Trust Services Singapore Limited (the "Trustee").

Management fee is payable to the Manager. Trustee fee and registrar fee are payable to the Trustee. Custody fee and valuation fee are payable to a related company of the Trustee, BNP Paribas Securities Services Singapore Branch.

In addition to related party information shown elsewhere in the financial statements (including the Statement of Portfolio), the following significant transactions took place during the financial period between the Fund and a related party at terms agreed between the parties and within the provisions of the Deeds:

	<b>30 June 2017</b>	31 December 2016
	<b>S\$</b>	S\$
Bank balances held with related party of the Trustee	<b>193,884</b>	325,553

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#### 14. Any other material information that will adversely impact the valuation of the fund

Nil.

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Intermediaries Hotline: 1800 535 8025 / 65 6535 8025  
Website: [www.nikkoam.com.sg](http://www.nikkoam.com.sg)

Company registration number 198202562H

# ANNUAL REPORT

For the financial year ended 31 December 2016

**Nikko AM Shenton  
Emerging Enterprise  
Discovery Fund**

**MANAGERS**

Nikko Asset Management Asia Limited  
12 Marina View, #18-02 Asia Square Tower 2  
Singapore 018961  
Company Registration No. 198202562H

**DIRECTORS**

Lim Say Boon  
Lim Soon Chong  
Seet Oon Hui Eleanor  
David Jonathan Semaya  
Yu-Ming Wang

**TRUSTEE**

BNP Paribas Trust Services Singapore Limited  
20 Collyer Quay, #01-01  
Singapore 049319

**AUDITORS**

PricewaterhouseCoopers LLP  
8 Cross Street, #17-00 PWC Building  
Singapore 048424

**REGISTRAR**

BNP Paribas Trust Services Singapore Limited  
20 Collyer Quay, #01-01  
Singapore 049319

**CUSTODIAN**

BNP Paribas Securities Services, Singapore Branch  
20 Collyer Quay, #01-01  
Singapore 049319

This report is also available on our website ([www.nikkoam.com.sg](http://www.nikkoam.com.sg))

## PERFORMANCE SUMMARY

<b>Returns (%)</b>	<b>3 Mth</b>	<b>6 Mth</b>	<b>1 Yr</b>	<b>3 Yr</b>	<b>5 Yr</b>	<b>10 Yr</b>	<b>Since Inception</b>
MSCI Asia ex Japan Small Cap Index <sup>1</sup>	-1.95	5.55	-2.58	1.06	4.32	-0.67	3.73
Nikko AM Shenton Emerging Enterprise Discovery Fund <sup>2</sup>	-1.57	4.56	-4.66	-2.07	1.52	-3.32	3.79

Source: © 2016 Morningstar. All Rights Reserved. & Nikko Asset Management Asia Limited, returns as at 31 December 2016. Returns are calculated on a NAV-NAV basis, SGD, and based on the assumption that all dividends and distributions are reinvested, if any. Returns for period in excess of 1 year are annualised. Past performance is not indicative of future performance.

<b>Returns (%)</b>	<b>3 Mth</b>	<b>6 Mth</b>	<b>1 Yr</b>	<b>3 Yr</b>	<b>5 Yr</b>	<b>10 Yr</b>	<b>Since Inception</b>
MSCI Asia ex Japan Small Cap Index <sup>1</sup>	-1.95	5.55	-2.58	1.06	4.32	-0.67	3.73
Nikko AM Shenton Emerging Enterprise Discovery Fund <sup>2</sup>	-6.49	-0.67	-9.43	-3.73	0.49	-3.82	3.51

Source: © 2016 Morningstar. All Rights Reserved. & Nikko Asset Management Asia Limited, returns as at 31 December 2016. Returns are calculated on a NAV-NAV basis, SGD, and based on the assumption that all dividends and distributions are reinvested, if any, and take into account of maximum initial sales charge and a realisation charge where applicable. Returns for period in excess of 1 year are annualised. Past performance is not indicative of future performance.

### **Inception date: 13 March 1998**

#### **Note:**

- (1) With effect from 1 October 2012, the benchmark has been changed to MSCI Asia ex Japan Small Cap Index. Prior to that, the benchmark was MSCI World Small Cap Index.
- (2) With effect from 1 October 2012, the Fund has been renamed Nikko AM Shenton Emerging Enterprise Discovery Fund. Prior to that, the Fund was known as Nikko AM Shenton Global Advantage Fund.

### **Portfolio Review**

#### **Fund returned -4.66% in 2016**

Over the review period, the Fund returned -4.66%, underperforming the benchmark which returned -2.58%. The year in review was marked by a gradual groundswell of positive sentiment towards better growth prospects. Emanating initially from the US, the sentiment spread to Asia as China's stimulus guided its economy onto more stable footing. Emerging markets, including Asia, saw increased interest, albeit mostly concentrated in large blue chips. The smaller cap space struggled to keep pace when the markets turned higher in 3Q but fell precipitously in the following quarter as the US Federal Reserve readied markets for a rate hike. The unexpected outcome of the US Presidential election results in November also took its toll on market sentiment. Against the backdrop of better economic data and less fear of a sharp slowdown in China, sector rotation from the more defensive to cyclical sector was a prevalent theme, especially later in the year when President-elect Trump talked up infrastructure spending and tax cuts.

The Fund's stock selection in Thailand, Taiwan, Hong Kong and India added to performance. In India, our entry when the market corrected sharply on fears over demonetisation in November was at an opportune moment. China was a major detractor as a swing from fears of a slowdown amid capital outflows to one of stability and revival of its moribund old-economy sectors saw selling in smaller cap stocks for large cap stocks, including State Owned Enterprises. Stock selection in Healthcare and

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Environment detracted substantially from performance. Healthcare, which outperformed in the prior years, underwent de-rating as investors opted for more risk. Our holdings in the Environmental space suffered the ignominy of short-seller reports and could not recoup tarnished credibility.

## **Market Review**

### ***Mainstream stocks performed better in 2016 as investors rotated into large liquid stocks***

Short term concerns over the stability of the Chinese economy early in the year sent stocks plummeting. However the market quickly stabilised as successively positive economic data points emerged as a result of the Chinese government's fiscal stimulus which was introduced in late 2015. Encouragingly, US data was also supportive of a risk-on climate as global markets rallied following the year-end US Presidential elections. Conversely, small cap companies lagged their larger brethren throughout the year as investors gravitated towards large established companies for the first signs of an economic recovery. The sometimes acrimonious US elections led to heightened volatility, which accentuated the decline in smaller cap stocks in the later part of the year.

### ***North Asia ended mostly lower***

Hong Kong and China small caps underperformed significantly amid heightened volatility from a stronger USD and a general tightening stance in China. In January, China's decision to impose circuit breakers proved ill-timed and led to further selling pressure in China and Hong Kong. Following gradually better economic data out of China, investor allocation to Asia rose markedly and was likely biased towards quick and cost efficient ETFs. Small caps were unjustifiably left out in this wave of buying that swept major Asian indices back into positive territory in the second half of the year.

Hong Kong's exports and imports returned to positive growth in a reflection of better overall economic health. While China's PMI continues to indicate expansion, concerns remain over capital outflows. In order to better manage yuan stability on a trade-weighted basis, China announced an adjustment to the composition of the trade-weighted Yuan Renminbi (CNY) index in December. Despite its efforts, Yuan weakness proved an overhang on small caps, with concerns over USD debt overshadowing the improving top line growth.

In Taiwan, the market was strong over the year, buoyed by the technology and financial sectors. Taiwan's opposition party, the Democratic Progressive Party (DPP), and its leader Tsai Ing-wen won a resounding victory in national elections in January, putting aside temporarily any rising political concerns. For Korea small caps, it was a disappointing year as flows out of smaller companies towards the top-end of the market was clearly evident. Even in the face of its disastrous launch of Note 7, Samsung Electronics ended the year more than 38% higher in local currency terms. In contrast, Korean small caps suffered decline of more than 15% in local currency terms as PE multiples contracted.

### ***India supported by initial easing measures and reforms but fails to overcome macro factors***

A year of significant macro developments overshadowed the Indian market. Further liberalisation of foreign direct investment (FDI), the appointment of new central bank governor Dr Urjit Patel and the passage of the GST bill in August brought the market near all-time highs though similar to other Asian markets, large blue chips led the advance. However, escalating tensions with Pakistan and Prime Minister Narendra Modi's unexpected demonetisation move in November muted sentiment. Ending the year on a disappointing note, the Monetary Policy Committee (MPC) surprised by leaving interest rates unchanged in December, citing macroeconomic uncertainty.

### ***Southeast Asia markets put in a strong performance***

Thailand outperformed peers on the back of improving government spending and monetary policy support. The local economy also remained relatively resilient despite mourning the passing of King Bhumibol Adulyadej. Indonesia put in a credible performance despite Rupiah weakness as Bank Indonesia reduced benchmark interest rates six times. The passage of the tax amnesty law in June boosted expectation for additional public and private investment spending. Additionally, Fitch revised Indonesia's outlook to Positive and the Board of Governors predicted an economic recovery in 2017 in

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view of an improving corporate sector and increased financing. Singapore was besieged by the Oil & Gas sector as many smaller players came under financial stress given the sharp reduction in activities in the region. However, the broader index managed to close the year in positive territory on the back of M&A activities, consumer staples and select REIT companies.

Philippines performed well through the first eight months of the year but gave up performance over rising political uncertainties. Although Rodrigo Duterte's Presidential victory in May was initially greeted by strong local buying of domestic equities, the President's subsequent controversial rhetoric overshadowed better-than-forecasted second quarter GDP growth. Malaysia ended the year in negative territory following fresh civil lawsuits by the US against the troubled 1Malaysia Development Bhd (1MDB) fund compounded by a weak currency.

### **Market Outlook and Strategy**

#### ***Upcoming political developments should not detract from improving company fundamentals***

Globally, investors seem transfixed by policy rhetoric and "tweets" from newly sworn in President Trump. This has distracted from otherwise improving economic conditions in the US and a pick-up in trade across the Asia region towards the end of 2016. We see the potential of US withdrawal from global trade as an opportunity for China to step up its role, particularly in Asia. As inflation picks up across a number of countries, we believe monetary conditions will not tighten acutely due to the preceding prolonged deflationary environment. Since the change in leadership in the US, politics will remain disproportionately important for markets and particularly for the more volatile smaller cap stocks.

What is more certain for 2017 is the quiet acceptance of more fiscal as opposed to monetary policies to better manage economies. In this respect, Asia stands out given its far healthier government balance sheets and capacity plus willingness to take on more debt. Notwithstanding the headwinds posed by a stronger USD and geo-politics, Asian small cap companies offer better growth than developed markets, and at more attractive valuations. MSCI Asia ex-Japan Small Cap trades on 1.3x forward Price-to-Book (P/B) multiple compared to 2.2x P/B multiple for MSCI World. Support for Asian small cap in the form of earnings growth at circa 10% to 15% and valuations should prove rewarding for investors willing to look beyond short term disruptions posed by fund flows and political changes. The fund will continue to seek out niche companies with sustainable business models backed by seasoned management and strong balance sheets.

## IMPORTANT INFORMATION

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This document is for information only with no consideration given to the specific investment objective, financial situation and particular needs of any specific person. Any securities mentioned herein are for illustration purposes only and should not be construed as a recommendation for investment. You should seek advice from a financial adviser before making any investment. In the event that you choose not to do so, you should consider whether the investment selected is suitable for you. Investments in unit trusts are not deposits in, obligations of, or guaranteed or insured by Nikko Asset Management Asia Limited (“**Nikko AM Asia**”).

**Past performance or any prediction, projection or forecast is not indicative of future performance.** The funds may use or invest in financial derivative instruments. The value of units and income from them may fall or rise. Investments in the funds are subject to investment risks, including the possible loss of principal amount invested. You should read the relevant prospectus and product highlights sheet obtainable from appointed distributors of Nikko AM Asia or our website ([www.nikkoam.com.sg](http://www.nikkoam.com.sg)) before investing.

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The CPF interest rate for the Ordinary Account (“OA”) is based on the 12-month fixed deposit and month-end savings rates of major local banks, subject to a minimum 2.5% interest per annum. The interest rate for Special, Medisave and Retirement Accounts (“SMRA”) is pegged to the 12-month average yield of 10-year Singapore Government Securities yield plus 1%. A 4% floor rate will be maintained for interest earned on SMRA until 31 December 2016, after which a 2.5% minimum rate will apply. An extra 1% interest is paid on the first S\$60,000 of a member’s combined balances, including up to S\$20,000 in the OA. The first S\$20,000 in the OA and the first S\$40,000 in the Special Account (“SA”) cannot be invested under the CPF Investment Scheme (“CPFIS”).

### **For Hong Kong Investors**

The fund is only offered to professional investors and is not authorized by the Securities and Futures Commission in Hong Kong. The contents of this document have not been reviewed by any regulatory authority in Hong Kong. You are advised to exercise caution in relation to this document. If you are in any doubt about any of the contents of this document, you should obtain independent professional advice.

Nikko Asset Management Asia Limited. Registration Number 198202562H

## SOFT DOLLAR COMMISSIONS/ARRANGEMENTS

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### Appointment of soft dollar brokers

The Managers will only appoint soft dollar brokers onto their broker panel after they have ensured that:

- a) full disclosure of the practice of accepting soft dollars is made;
- b) the commission rates charged are comparable with the market rates;
- c) there is no conflict of interest;
- d) the soft dollar credits are used only for clearly defined services;
- e) at all times trades are executed through the respective brokers only on the basis of best execution regardless whether soft dollar benefits will accrue. Best execution shall include competitive prices with smooth execution ability; and
- f) relevant regulations and guidelines are complied with.

The procedures for the appointment of the brokers shall be no different from that of normal full service brokers.

### Execution and allocation

If the Trustee objects to the use of the soft dollar brokers, the trades of the Fund shall be segregated from the rest of the trades that are executed through the relevant soft dollar broker(s). The Managers will execute trades for such accounts only with authorised full service brokers.

It is the responsibility of the Managers to ensure that the allocation quotas are adhered to. In addition, the Managers will monitor the execution ability of the soft dollar brokers and assign the business strictly on a "best execution" basis.

Subject to the provisions of the Code\*, in its management of the Fund, the Managers may receive soft dollar commissions from, or may enter into soft dollar arrangements with, stockbrokers who execute trades on behalf of the Fund and the soft dollars received would be restricted to the following kinds of services:

- a) specific advice as to the advisability of dealing in, or of the value of any investments;
- b) research and advisory services;
- c) economic and political analysis;
- d) portfolio analysis including valuation and portfolio measurements;
- e) market analysis;
- f) data and quotation services;
- g) computer hardware or software that are used to support the investment decision making process, the giving of advice, or the conduct of research or analysis; and
- h) custodial services in relation to the investments managed for clients.

The following are, however, prohibited:

- a) travel, accommodation and entertainment expenses;
- b) general administrative goods and services including office equipment and premises;
- c) membership fees;
- d) employee salaries; and
- e) direct money payments / rebates.

The Managers will retain the records of the payments made using soft dollar commissions.

The Managers of the Nikko AM Shenton Emerging Enterprise Discovery Fund (the "Fund") will not accept or enter into soft-dollar commissions / arrangements unless:

- such soft-dollar commissions / arrangements would in the opinion of the Managers, assist the Managers in their management of the Fund;
- the Managers shall ensure at all times that best execution is carried out for the transactions; and
- no unnecessary trades are entered into in order to qualify for such soft-dollar commissions / arrangements.

The Managers of the Nikko AM Shenton Emerging Enterprise Discovery Fund will comply with applicable regulatory and industry standards on soft dollars.

\* The "Code" means the Code on Collective Investment Schemes issued by the Authority pursuant to the Securities and Futures Act, as may be amended, modified, or supplemented from time to time by the Authority.

## **NIKKO AM SHENTON EMERGING ENTERPRISE DISCOVERY FUND**

*(Constituted under a Trust Deed registered in the Republic of Singapore)*

### **REPORT OF THE TRUSTEE**

*For the financial year ended 31 December 2016*

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The Trustee is under a duty to take into custody and hold the assets of Nikko AM Shenton Emerging Enterprise Discovery Fund (the "Fund") in trust for the unitholders. In accordance with the Securities and Futures Act (Cap. 289), its subsidiary legislation and the Code on Collective Investment Schemes, the Trustee shall monitor the activities of the Manager for compliance with the limitations imposed on the investment and borrowing powers as set out in the Trust Deed in each annual accounting year and report thereon to unitholders in an annual report.

To the best knowledge of the Trustee, the Manager has, in all material respects, managed the Fund during the financial year covered by these financial statements, set out on pages 12 to 32, in accordance with the limitations imposed on the investment and borrowing powers set out in the Trust Deed.

For and on behalf of the Trustee  
BNP Paribas Trust Services Singapore Limited

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Authorised signatory

**NIKKO AM SHENTON EMERGING ENTERPRISE DISCOVERY FUND**

*(Constituted under a Trust Deed registered in the Republic of Singapore)*

**STATEMENT BY THE MANAGER**

*For the financial year ended 31 December 2016*

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In the opinion of Nikko Asset Management Asia Limited, the accompanying financial statements set out on pages 12 to 32, comprising the Statement of Total Return, Statement of Financial Position, Statement of Movements of Unitholders' Funds, Statement of Portfolio and Notes to the Financial Statements are drawn up so as to present fairly, in all material respects, the financial position and the portfolio holdings of Nikko AM Shenton Emerging Enterprise Discovery Fund (the "Fund") as at 31 December 2016, and the financial performance and movements in unitholders' funds for the year then ended in accordance with the recommendations of Statement of Recommended Accounting Practice 7 "Reporting Framework for Unit Trusts" issued by the Institute of Singapore Chartered Accountants. At the date of this statement, there are reasonable grounds to believe that the Fund will be able to meet its financial obligations as and when they materialise.

For and on behalf of the Manager  
Nikko Asset Management Asia Limited

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Authorised signatory

**INDEPENDENT AUDITOR'S REPORT**  
**TO THE UNITHOLDERS OF NIKKO AM SHENTON EMERGING ENTERPRISE DISCOVERY FUND**  
(Constituted under a Trust Deed registered in the Republic of Singapore)

***Our Opinion***

In our opinion, the accompanying financial statements of Nikko AM Emerging Enterprise Discovery Fund (the "Fund"), are properly drawn up in accordance with the recommendations of Statement of Recommended Accounting Practice 7 "Reporting Framework for Unit Trusts" issued by the Institute of Singapore Chartered Accountants, so as to present fairly, in all material respects, the financial position and portfolio holdings of the Fund as at 31 December 2016, and of the financial performance and movements of unitholders' funds for the financial year ended on that date.

*What we have audited*

The financial statements of the Fund comprise:

- the Statement of Financial Position as at 31 December 2016;
- the Statement of Portfolio as at 31 December 2016;
- the Statement of Total Return for the financial year then ended;
- the Statement of Movements of Unitholders' Funds for the financial year then ended; and
- the notes to the financial statements, including a summary of significant accounting policies.

***Basis for Opinion***

We conducted our audit in accordance with Singapore Standards on Auditing ("SSAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Independence*

We are independent of the Fund in accordance with the Accounting and Corporate Regulatory Authority Code of Professional Conduct and Ethics for Public Accountants and Accounting Entities ("ACRA Code") together with the ethical requirements that are relevant to our audit of the financial statements in Singapore, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the ACRA Code.

***Other Information***

The Fund's Manager (the "Manager") is responsible for the other information. The other information comprises the relevant sections of the annual report included in pages 1 to 8 and 33 to 35, which we obtained prior to the date of this auditor's report, and excludes the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

**INDEPENDENT AUDITOR'S REPORT**  
**TO THE UNITHOLDERS OF NIKKO AM SHENTON EMERGING ENTERPRISE DISCOVERY FUND**  
*(Constituted under a Trust Deed registered in the Republic of Singapore)*

***Responsibilities of the Manager for the Financial Statements***

The Manager is responsible for the preparation and fair presentation of these financial statements in accordance with the recommendations of Statement of Recommended Accounting Practice 7 "Reporting Framework for Unit Trusts" issued by the Institute of Singapore Chartered Accountants and for such internal control as the Manager determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Manager is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Manager either intends to terminate the Fund or to cease the Fund's operations, or has no realistic alternative but to do so.

***Auditor's Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with SSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Manager.
- Conclude on the appropriateness of the Manager's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

**INDEPENDENT AUDITOR'S REPORT**  
**TO THE UNITHOLDERS OF NIKKO AM SHENTON EMERGING ENTERPRISE DISCOVERY FUND**  
*(Constituted under a Trust Deed registered in the Republic of Singapore)*

We communicate with the Manager regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

PricewaterhouseCoopers LLP  
Public Accountants and Chartered Accountants  
Singapore

**NIKKO AM SHENTON EMERGING ENTERPRISE DISCOVERY FUND***(Constituted under a Trust Deed registered in the Republic of Singapore)***STATEMENT OF TOTAL RETURN***For the financial year ended 31 December 2016*

	Note	2016 S\$	2015 S\$
<b>Income</b>			
Dividends		<u>83,863</u>	78,070
		<b>83,863</b>	<b>78,070</b>
<b>Less: Expenses</b>			
Management fee		74,240	77,731
Registrar fee		5,744	5,733
Trustee fee		15,042	15,001
Custody fee		2,896	2,981
Audit fee		11,491	11,531
Valuation fee		10,028	10,000
Transaction costs		47,776	32,991
Other expenses		<u>39,224</u>	22,280
		<b>206,441</b>	<b>178,248</b>
<b>Net losses</b>		<u>(122,578)</u>	(100,178)
<b>Net gains or losses on value of investments</b>			
Net losses on investments		(124,082)	(158,494)
Net foreign exchange losses		<u>(20,322)</u>	(9,696)
		<b>(144,404)</b>	<b>(168,190)</b>
<b>Total deficit for the financial year before income tax</b>		<b>(266,982)</b>	(268,368)
<b>Less: Income tax</b>	3	<u>(6,878)</u>	(7,461)
<b>Total deficit for the financial year after income tax</b>		<b>(273,860)</b>	<b>(275,829)</b>

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*The accompanying notes form an integral part of these financial statements*

## NIKKO AM SHENTON EMERGING ENTERPRISE DISCOVERY FUND

(Constituted under a Trust Deed registered in the Republic of Singapore)

### STATEMENT OF FINANCIAL POSITION

As at 31 December 2016

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	Note	2016 S\$	2015 S\$
<b>ASSETS</b>			
Portfolio of investments		4,309,623	5,360,474
Sales awaiting settlement		81,782	-
Receivables	4	1,225	3,323
Cash and bank balances		325,553	253,551
<b>Total assets</b>		<b>4,718,183</b>	<b>5,617,348</b>
<b>LIABILITIES</b>			
Payables	5	47,187	44,995
Purchases awaiting settlement		34,592	-
<b>Total liabilities</b>		<b>81,779</b>	<b>44,995</b>
<b>EQUITY</b>			
Net assets attributable to unitholders	6	<b>4,636,404</b>	<b>5,572,353</b>

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The accompanying notes form an integral part of these financial statements

**NIKKO AM SHENTON EMERGING ENTERPRISE DISCOVERY FUND***(Constituted under a Trust Deed registered in the Republic of Singapore)***STATEMENT OF MOVEMENTS OF UNITHOLDERS' FUNDS***For the financial year ended 31 December 2016*

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	Note	2016 S\$	2015 S\$
<b>Net assets attributable to unitholders at the beginning of the financial year</b>		<b>5,572,353</b>	4,839,896
<b>Operations</b>			
Change in net assets attributable to unitholders resulting from operations		<b>(273,860)</b>	(275,829)
<b>Unitholders' contributions/(withdrawals)</b>			
Creation of units		<b>76,178</b>	2,209,575
Cancellation of units		<b>(738,267)</b>	(1,201,289)
Change in net assets attributable to unitholders resulting from net creation and cancellation of units		<b>(662,089)</b>	1,008,286
Total (decrease)/increase in net assets attributable to unitholders		<b>(935,949)</b>	732,457
<b>Net assets attributable to unitholders at the end of the financial year</b>	6	<b>4,636,404</b>	5,572,353

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*The accompanying notes form an integral part of these financial statements*

## NIKKO AM SHENTON EMERGING ENTERPRISE DISCOVERY FUND

(Constituted under a Trust Deed registered in the Republic of Singapore)

### STATEMENT OF PORTFOLIO

As at 31 December 2016

#### By Geography (Primary)

	Holdings at 31 December 2016	Fair value at 31 December 2016 S\$	Percentage of total net assets attributable to unitholders at 31 December 2016 %
<b>Total Quoted Equities</b>			
<b>BERMUDA ISLANDS</b>			
Fairwood Holdings Limited	7,500	39,550	0.85
Valuetronics Holdings Limited	131,800	68,536	1.48
<b>Total BERMUDA ISLANDS</b>		<b>108,086</b>	<b>2.33</b>
<b>CAYMAN ISLANDS</b>			
3Sbio Incorporation	58,000	81,597	1.76
ASM Pacific Technology Limited	7,700	117,869	2.54
Canvest Environmental Protection Group Company Limited	72,000	51,384	1.11
China Medical System Holdings Limited	73,000	167,040	3.60
China State Construction International Holdings Limited	44,000	95,106	2.05
Dadi Early-Childhood Education Group Limited	13,000	109,555	2.37
JNBY Design Limited	81,500	111,772	2.41
Nexteer Automotive Group Limited	39,000	66,858	1.44
VHQ Media Holdings Limited	12,000	95,749	2.07
<b>Total CAYMAN ISLANDS</b>		<b>896,930</b>	<b>19.35</b>
<b>CHINA</b>			
Anhui Conch Cement Company Limited	24,000	94,361	2.04
Flat Glass Group Company Limited	184,000	58,972	1.27
Travelsky Technology Limited	24,000	72,895	1.57
<b>Total CHINA</b>		<b>226,228</b>	<b>4.88</b>
<b>HONG KONG SAR</b>			
China Resources Pharmaceutical Group Limited	45,000	73,370	1.58
CSPC Pharmaceutical Group Limited	62,000	95,658	2.07
Universal Medical Financial & Technical Advisory Services Company Limited	95,500	114,067	2.46
<b>Total HONG KONG SAR</b>		<b>283,095</b>	<b>6.11</b>

The accompanying notes form an integral part of these financial statements

**NIKKO AM SHENTON EMERGING ENTERPRISE DISCOVERY FUND***(Constituted under a Trust Deed registered in the Republic of Singapore)***STATEMENT OF PORTFOLIO***As at 31 December 2016***By Geography (Primary) (continued)**

	Holdings at 31 December 2016	Fair value at 31 December 2016 S\$	Percentage of total net assets attributable to unitholders at 31 December 2016 %
<b>Total Quoted Equities (continued)</b>			
<b>INDIA</b>			
Bajaj Auto Limited	1,114	62,417	1.35
Castrol India Limited	7,828	63,319	1.36
Cholamandalam Investment and Finance Company Limited	2,528	50,793	1.10
Emami Limited	4,167	83,378	1.80
Federal Bank Limited	49,577	70,548	1.52
Hindustan Zinc Limited	18,969	102,964	2.22
Indusind Bank Limited	4,091	96,313	2.08
<b>Total INDIA</b>		<u>529,732</u>	<u>11.43</u>
<b>INDONESIA</b>			
Acset Indonusa TBK PT	225,700	68,251	1.47
Adhi Karya Persero TBK PT	326,300	72,780	1.57
Indo Tambangraya Megah TBK PT	28,600	51,754	1.12
Kresna Graha Investama PT TBK	1,246,200	62,541	1.35
Prodia Widyahusada TBK PT	55,800	34,705	0.75
Puradelta Lestari TBK PT	2,708,900	66,811	1.44
Ramayana Lestari Sentosa TBK PT	366,500	46,965	1.01
Summarecon Agung TBK PT	636,800	90,479	1.95
United Tractors TBK PT	21,300	48,537	1.05
Wijaya Karya Persero TBK PT	280,656	71,026	1.53
<b>Total INDONESIA</b>		<u>613,849</u>	<u>13.24</u>
<b>PHILIPPINES</b>			
8990 Holdings Incorporation	692,400	151,116	3.26
Bank of The Philippine Islands	26,360	68,025	1.47
Bloomberry Resorts Corporation	316,100	56,495	1.22
Cemex Holdings Philippines Incorporation	178,000	57,419	1.24
GT Capital Holdings Incorporation	1,180	43,551	0.94
Security Bank Corporation	10,720	59,192	1.27
Shakey's Pizza Asia Ventures Incorporation	114,200	38,166	0.82
<b>Total PHILIPPINES</b>		<u>473,964</u>	<u>10.22</u>
<b>SINGAPORE</b>			
Keppel Telecommunications & Transportation Limited	27,200	46,648	1.00
Yoma Strategic Holdings Limited	110,800	64,818	1.40
<b>Total SINGAPORE</b>		<u>111,466</u>	<u>2.40</u>

*The accompanying notes form an integral part of these financial statements*

**NIKKO AM SHENTON EMERGING ENTERPRISE DISCOVERY FUND***(Constituted under a Trust Deed registered in the Republic of Singapore)***STATEMENT OF PORTFOLIO***As at 31 December 2016***By Geography (Primary) (continued)**

	Holdings at 31 December 2016	Fair value at 31 December 2016 S\$	Percentage of total net assets attributable to unitholders at 31 December 2016 %
<b>Total Quoted Equities (continued)</b>			
<b>SOUTH KOREA</b>			
Handsome Company Limited	1,640	68,364	1.47
i-SENS Incorporation	1,887	66,359	1.43
Nasmedia Company Limited	1,648	75,893	1.64
SK Bioland Company Limited	2,186	46,543	1.00
Yonwoo Company Limited	1,619	73,976	1.60
<b>Total SOUTH KOREA</b>		<u>331,135</u>	<u>7.14</u>
<b>TAIWAN</b>			
Bon Fame Company Limited	8,000	54,867	1.18
China Life Insurance Company Limited	39,000	56,030	1.21
EGIS Technology Incorporation	12,000	142,547	3.07
Hu Lane Associate Incorporation	12,000	77,191	1.67
Visual Photonics Epitaxy Company Limited	37,000	82,099	1.77
<b>Total TAIWAN</b>		<u>412,734</u>	<u>8.90</u>
<b>THAILAND</b>			
Chularat Hospital Public Company Limited	1,084,000	125,073	2.70
Hana Microelectronics Public Company Limited	37,500	59,758	1.29
Malee Group Public Company Limited	15,300	70,983	1.53
Pylon Public Company Limited	131,000	66,590	1.43
<b>Total THAILAND</b>		<u>322,404</u>	<u>6.95</u>
<b>Total Quoted Equities</b>		<u>4,309,623</u>	<u>92.95</u>
<b>Portfolio of investments</b>		4,309,623	92.95
<b>Other net assets</b>		326,781	7.05
<b>Net assets attributable to unitholders</b>		<u>4,636,404</u>	<u>100.00</u>

*The accompanying notes form an integral part of these financial statements*

## NIKKO AM SHENTON EMERGING ENTERPRISE DISCOVERY FUND

(Constituted under a Trust Deed registered in the Republic of Singapore)

### STATEMENT OF PORTFOLIO

As at 31 December 2016

---

<b>By Geography (Summary)</b>	<b>Percentage of total net assets attributable to unitholders at 31 December 2016 %</b>	<b>Percentage of total net assets attributable to unitholders at 31 December 2015 %</b>
<b>Quoted Equities</b>		
Bermuda Islands	2.33	-
Cayman Islands	19.35	43.09
China	4.88	2.51
Hong Kong SAR	6.11	4.86
India	11.43	9.85
Indonesia	13.24	1.44
Philippines	10.22	1.02
Singapore	2.40	1.85
South Korea	7.14	10.95
Taiwan	8.90	7.85
Thailand	6.95	12.78
<b>Total Quoted Equities</b>	<b>92.95</b>	<b>96.20</b>
<b>Portfolio of investments</b>	<b>92.95</b>	<b>96.20</b>
<b>Other net assets</b>	<b>7.05</b>	<b>3.80</b>
<b>Net assets attributable to unitholders</b>	<b>100.00</b>	<b>100.00</b>

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*The accompanying notes form an integral part of these financial statements*

## NIKKO AM SHENTON EMERGING ENTERPRISE DISCOVERY FUND

(Constituted under a Trust Deed registered in the Republic of Singapore)

### STATEMENT OF PORTFOLIO

As at 31 December 2016

By Industry (Secondary)	Fair value at	Percentage of	Percentage of
	31 December	total net assets	total net assets
	2016	attributable to	attributable to
	S\$	unitholders at	unitholders at
		31 December	31 December
		2016	2015
		%	%
Advertising	-	-	3.21
Apparel	180,136	3.89	8.33
Auto Manufacturers	-	-	1.56
Auto Parts & Equipment	66,858	1.44	2.24
Banks	294,078	6.34	3.89
Beverages	-	-	4.71
Biotechnology	128,140	2.76	5.20
Building Materials	151,780	3.27	-
Chemicals	63,319	1.37	0.93
Coal	51,754	1.12	-
Diversified Financial Services	113,334	2.44	2.87
Electronics	407,004	8.78	6.39
Energy	51,384	1.11	2.37
Engineering and Construction	305,502	6.59	1.03
Entertainment	56,495	1.22	2.15
Environmental Control	-	-	3.51
Food	70,983	1.53	3.51
Healthcare-Products	347,466	7.49	8.14
Healthcare-Services	159,778	3.45	13.01
Home Builders	219,367	4.73	-
Insurance	56,030	1.21	0.98
Internet	75,893	1.64	-
Investment Companies	43,551	0.94	-
Leisure Time	62,417	1.35	1.80
Machinery-Construction & Mining	48,537	1.05	-
Machinery-Diversified	-	-	1.02
Media	95,749	2.06	1.04
Mining	102,964	2.22	-
Packaging & Containers	73,976	1.60	-
Pharmaceuticals	252,406	5.44	5.35
Real Estate	222,108	4.79	1.63
Retail	179,548	3.87	1.44
Semiconductors	199,968	4.31	3.84
Software	182,450	3.93	3.89
Telecommunications	-	-	1.15
Transportation	46,648	1.01	1.01
<b>Portfolio of investments</b>	<b>4,309,623</b>	<b>92.95</b>	<b>96.20</b>
<b>Other net assets</b>	<b>326,781</b>	<b>7.05</b>	<b>3.80</b>
<b>Net assets attributable to unitholders</b>	<b>4,636,404</b>	<b>100.00</b>	<b>100.00</b>

The accompanying notes form an integral part of these financial statements

## **NIKKO AM SHENTON EMERGING ENTERPRISE DISCOVERY FUND**

*(Constituted under a Trust Deed registered in the Republic of Singapore)*

### **NOTES TO THE FINANCIAL STATEMENTS**

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These notes form an integral part of and should be read in conjunction with the accompanying financial statements.

#### **1. General**

Nikko AM Shenton Emerging Enterprise Discovery Fund (the "Fund") is a Singapore domiciled fund, constituted by a Trust Deed dated 20 October 1997 as amended by Supplemental Deeds and Amended and Restated Deeds (collectively referred to as the "Deeds"). The Deeds are governed by the laws of the Republic of Singapore. The Trustee of the Fund is BNP Paribas Trust Services Singapore Limited (the "Trustee"). The Manager of the Fund is Nikko Asset Management Asia Limited (the "Manager").

There are three classes of units established within the Fund, namely the SGD Class, USD Class and RMB Class.

The classes may differ in terms of their class currency and the minimum subscription amounts applicable.

As of 31 December 2016, only units in the SGD Class has been issued.

#### **2. Significant accounting policies**

The principal accounting policies applied in the preparation of these financial statements are set out below:

##### **(a) Basis of preparation**

The financial statements have been prepared under the historical-cost convention, as modified by the revaluation of financial assets held at fair value through profit or loss, and in accordance with the Statement of Recommended Accounting Practice 7 "Reporting Framework for Unit Trusts" ("RAP 7") issued by the Institute of Singapore Chartered Accountants.

##### **(b) Recognition of income**

Dividend income from investments is recognised when the right to receive payment is established.

Interest income is recognised on a time-proportion basis using the effective interest rate method.

## NIKKO AM SHENTON EMERGING ENTERPRISE DISCOVERY FUND

(Constituted under a Trust Deed registered in the Republic of Singapore)

### NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

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#### 2. Significant accounting policies (continued)

##### (c) Investments

Investments are classified as financial assets at fair value through profit or loss.

##### (i) *Initial recognition*

Purchases of investments are recognised on the trade date. Investments are recorded at fair value on initial recognition.

##### (ii) *Subsequent measurement*

Investments are subsequently carried at fair value. Net change in fair value on investments are included in the Statement of Total Return in the year in which they arise.

##### (iii) *Derecognition*

Investments are derecognised on the trade date of disposal. The resultant realised gains and losses on the sales of investments are computed on the basis of the difference between the weighted average cost and selling price gross of transaction costs, and are taken up in the Statement of Total Return.

##### (d) Basis of valuation of investments

The fair value of financial assets and liabilities traded in active markets is based on quoted market prices at the close of trading on the reporting date. The quoted market price used for investments held by the Fund is the last traded market price for both financial assets and financial liabilities where the last traded price falls within the bid-ask spread. In circumstances where the last traded price is not within the bid-ask spread, the Manager will determine the point within the bid-ask spread that is most representative of fair value.

##### (e) Receivables

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Receivables are initially recognised at their fair value and subsequently carried at amortised cost using the effective interest method, less accumulated impairment losses.

##### (f) Foreign currency translation

##### (i) *Functional and presentation currency*

The Fund qualifies as an authorised scheme under the Securities and Futures Act ("SFA") of Singapore and is offered to retail investors in Singapore. The Fund's activities are substantially based in Singapore, with subscriptions and redemptions of the units of the Fund denominated in Singapore dollars.

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(Constituted under a Trust Deed registered in the Republic of Singapore)

### NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

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#### 2. Significant accounting policies (continued)

##### (f) Foreign currency translation (continued)

###### (i) *Functional and presentation currency* (continued)

The performance of the Fund is measured and reported to the investors in Singapore dollars. The Manager considers the Singapore Dollar as the currency which most faithfully represents the economic effects of the underlying transactions, events and conditions. The financial statements are expressed in Singapore dollars, which is the Fund's functional and presentation currency.

###### (ii) *Transactions and balances*

Foreign currency monetary assets and liabilities are translated into Singapore dollars at the rates of exchange prevailing at the date of the Statement of Financial Position. The net unrealised gain or loss is taken to the Statement of Total Return. Transactions during the year are recorded in Singapore dollars at the rates of exchange ruling on transaction dates. All realised gains or losses are recognised in the Statement of Total Return.

#### 3. Income Tax

The Fund was granted the status of Designated Unit Trust (DUT) in Singapore. The Manager and the Trustee of the Fund will ensure that the Fund fulfills its reporting obligations under the DUT Scheme.

Under the DUT Scheme, subject to certain conditions and reporting obligations being met, certain income of the DUT fund is not taxable in accordance with section 35(12) and 35(12A) of the Income Tax Act. Such income include:

- (a) gains or profits derived from Singapore or elsewhere from the disposal of securities;
  - (b) interest (other than interest for which tax has been deducted under Section 45 of the Income Tax Act);
  - (c) dividends derived from outside Singapore and received in Singapore;
  - (d) gains or profits derived from foreign exchange transactions, transactions in futures contracts, transactions in interest rate or currency forwards, swaps or option contracts and transactions in forwards, swaps or option contracts relating to any securities or financial index;
  - (e) discount, prepayment fee, redemption premium and break cost from qualifying debt securities issued during the prescribed period; and
  - (f) distributions from foreign unit trusts derived from outside Singapore and received in Singapore.
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## NIKKO AM SHENTON EMERGING ENTERPRISE DISCOVERY FUND

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### NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

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#### 3. Income Tax (continued)

Income tax for the financial year ended on 31 December 2016 and 31 December 2015 comprises:

	2016 S\$	2015 S\$
Overseas income tax	<u>6,878</u>	<u>7,461</u>

The overseas income tax represents tax deducted at source on dividends derived from outside Singapore.

#### 4. Receivables

	2016 S\$	2015 S\$
Receivable from unitholders for creation of units	-	1,462
Dividends receivable	1,175	1,861
Other receivable	50	-
	<u>1,225</u>	<u>3,323</u>

#### 5. Payables

	2016 S\$	2015 S\$
Payable to unitholders for cancellation of units	7,394	1,435
Amount due to the Manager	19,519	23,224
Valuation fee payable	2,697	2,697
Trustee fee payable	4,045	4,045
Registrar fee payable	1,213	1,213
Provision for audit fee	11,802	11,770
Amount due to custodian	517	611
	<u>47,187</u>	<u>44,995</u>

Amount due to the Manager comprises of management fee payable to Nikko Asset Management Asia Limited. Trustee fee and registrar fee are payable to BNP Paribas Trust Services Singapore Limited. Valuation fee and custodian fee are payable to BNP Paribas Securities Services Singapore Branch.

## NIKKO AM SHENTON EMERGING ENTERPRISE DISCOVERY FUND

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### NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

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#### 6. Units in issue

During the year ended 31 December 2016 and 31 December 2015, the number of units issued, redeemed and outstanding was as follows:

	2016	2015
Units at beginning of the financial year	2,824,719	2,311,251
Units created	41,144	1,057,229
Units cancelled	(399,411)	(543,761)
Units at end of the financial year	<u>2,466,452</u>	<u>2,824,719</u>
Net assets attributable to unitholders – S\$	4,636,404	5,572,353
Net asset value per unit – S\$	<u>1.880</u>	<u>1.973</u>

For subscriptions and redemptions and for various fee calculations, investments are stated at the last traded prices on the valuation day for the purpose of determining net asset value per unit. In circumstances where the last traded price is not within the bid-ask spread, the Manager will determine the point within the bid-ask spread that is most representative of fair value for reporting purpose.

A reconciliation of the net asset value as reported in the Statement of Financial Position to the net asset value as determined for the purpose of processing unit subscription and redemption is provided below:

	2016 S\$	2015 S\$
Net assets attributable to unitholders per financial statements per unit	1.880	1.973
Effect for movement in the net asset value between the last dealing date and the end of the reporting period <sup>^</sup>	-	-
Effect of adopting bid prices at fair value per unit	0.002	0.001
Net assets attributable to unitholders for issuing/redeeming per unit	<u>1.882</u>	<u>1.974</u>

<sup>^</sup>The net asset value for the purposes of processing unit subscription and redemption was established in accordance with the methodology indicated in the Fund's Prospectus. This item reflects the movement in net asset value between the last dealing date and the end of the reporting period due to accrual of operating expenses. In 2016, the effect is less than 0.001.

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### **NOTES TO THE FINANCIAL STATEMENTS**

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#### **7. Financial risk management**

The Fund's activities expose it to a variety of risk, including but not limited to market risk (including currency risk, interest rate risk and price risk), liquidity risk and credit risk. The Manager is responsible for the implementation of the overall risk management programme, which seeks to minimise potential adverse effects on the Fund's financial performance. Specific guidelines on exposures to individual securities and certain industries and/or countries are in place as part of the overall financial risk management to reduce the Fund's exposures to these risks.

The Fund's objective is to achieve medium to long-term capital appreciation by investing primarily in listed equities of small to medium-sized companies in Asia ex-Japan, which in the Managers' opinion are undervalued.

The financial instruments are held in accordance with the published investment policies of the Fund and are managed accordingly to achieve the investment objectives.

##### **(a) Market risk - Price risk**

Price risk is the risk that arises from uncertainties about future prices of financial instruments.

The Fund's investment is substantially dependent on the changes of market prices. The Fund's overall market positions are monitored regularly so as to assess any changes in fundamentals and valuation. However, events beyond reasonable control of the Manager could affect the prices of the underlying investments and hence the net asset value of the Fund.

The Fund's market price risk is managed through diversification of the investment portfolio exposure across various geographies and industries in Asia ex-Japan.

As the Fund invests primarily in listed equities of small to medium-sized companies in Asia ex-Japan, the Manager is of the view that the price risk the Fund is best reflected by movements in its benchmark MSCI Asia ex-Japan Small Cap Index (the "Index").

As at 31 December 2016, an increase/decrease of Index components within the benchmark of MSCI Asia ex-Japan Small Cap by 10% (2015: 10%), with all other variables remaining constant, the net assets attributable to unitholders for the year would increase/decrease by approximately 11% (2015: 11%). The analysis was based on the assumptions that the Index components within the benchmark increased/decreased by a reasonable possible shift, with all other variables held constant and that the fair value of Fund's investments moved according to the beta. The benchmark percentage is revised annually depending on management's current view on market volatility and other relevant factors.

## **NIKKO AM SHENTON EMERGING ENTERPRISE DISCOVERY FUND**

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### **NOTES TO THE FINANCIAL STATEMENTS**

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#### **7. Financial risk management** (continued)

##### **(b) Market risk - Interest rate risk**

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates (fair value risk).

Investment funds that invest in equity securities may be subject to interest rate risk as any interest rate change may affect the equity risk premium though at varying degrees. To manage this risk, the Manager analyses how interest rate changes may affect different industries and securities and then seeks to adjust the Fund's portfolio investments accordingly.

However, the effects of changes in interest rates on the Fund's portfolio may not be quantified as the relationship between the interest rates and the value of equity securities is indirect. Hence, no sensitivity analysis has been presented separately.

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**7. Financial risk management** (continued)

(c) **Market risk - Currency risk**

Currency risk is the risk that the value of financial instrument will fluctuate due to changes in foreign exchange rates.

To minimise currency risk, the Fund mainly holds its excess cash in its functional currency. For hedging purposes, the Fund may also enter into forward foreign exchange contracts.

The tables below summarise the Fund's exposure to currency risks.

<b>As at 31 December 2016</b>	<b>SGD S\$</b>	<b>USD S\$</b>	<b>HKD S\$</b>	<b>PHP S\$</b>	<b>INR S\$</b>	<b>IDR S\$</b>	<b>KRW S\$</b>	<b>THB S\$</b>	<b>TWD S\$</b>	<b>Total S\$</b>
<b>Assets</b>										
Portfolio of investments	180,002	-	1,240,499	473,964	529,732	613,849	331,135	322,404	618,038	4,309,623
Sales awaiting settlement	-	-	81,782	-	-	-	-	-	-	81,782
Receivables	50	-	-	483	-	-	692	-	-	1,225
Cash and bank balances	320,293	3,971	-	-	-	-	1	-	1,288	325,553
<b>Total assets</b>	<b>500,345</b>	<b>3,971</b>	<b>1,322,281</b>	<b>474,447</b>	<b>529,732</b>	<b>613,849</b>	<b>331,828</b>	<b>322,404</b>	<b>619,326</b>	<b>4,718,183</b>
<b>Liabilities</b>										
Payables	47,187	-	-	-	-	-	-	-	-	47,187
Purchases awaiting settlement	-	-	-	-	34,592	-	-	-	-	34,592
<b>Total liabilities</b>	<b>47,187</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>34,592</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>81,779</b>
<b>Net currency exposure</b>	<b>453,158</b>	<b>3,971</b>	<b>1,322,281</b>	<b>474,447</b>	<b>495,140</b>	<b>613,849</b>	<b>331,828</b>	<b>322,404</b>	<b>619,326</b>	

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**7. Financial risk management** (continued)

(c) **Market risk - Currency risk** (continued)

As at 31 December 2015	SGD S\$	USD S\$	HKD S\$	PHP S\$	INR S\$	IDR S\$	KRW S\$	THB S\$	TWD S\$	Total S\$
<b>Assets</b>										
Portfolio of investments	102,900	-	2,723,740	56,597	548,921	80,059	610,124	712,554	525,579	5,360,474
Receivables	1,462	-	1,281	-	-	-	580	-	-	3,323
Cash and bank balances	173,097	3,383	-	-	-	-	1	-	77,070	253,551
<b>Total assets</b>	<b>277,459</b>	<b>3,383</b>	<b>2,725,021</b>	<b>56,597</b>	<b>548,921</b>	<b>80,059</b>	<b>610,705</b>	<b>712,554</b>	<b>602,649</b>	<b>5,617,348</b>
<b>Liabilities</b>										
Payables	44,995	-	-	-	-	-	-	-	-	44,995
<b>Total liabilities</b>	<b>44,995</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>44,995</b>
<b>Net currency exposure</b>	<b>232,464</b>	<b>3,383</b>	<b>2,725,021</b>	<b>56,597</b>	<b>548,921</b>	<b>80,059</b>	<b>610,705</b>	<b>712,554</b>	<b>602,649</b>	

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**NOTES TO THE FINANCIAL STATEMENTS**  
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**7. Financial risk management** (continued)

(c) **Market risk - Currency risk** (continued)

Portfolio of investments, which is a significant item in the Statement of Financial Position, is exposed to currency risk and other price risk. The Manager has considered the impact of currency risk sensitivity on non-monetary assets as part of the price risk sensitivity analysis.

As of 31 December 2016 and 31 December 2015, the Fund does not hold substantial monetary assets/liabilities denominated in foreign currencies. Changes in foreign exchange rates on monetary assets/liabilities will not result in a significant change in the net asset value of the Fund. Hence, no separate sensitivity analysis on foreign currency risk has been presented.

(d) **Liquidity risk**

Liquidity risk is the risk of loss arising from the inability of the Fund to meet its obligations as and when they fall due without incurring unacceptable cost or losses.

The Fund is exposed to daily cash redemptions from unitholders. However, in accordance with the Fund's prospectus, minimum holdings and minimum redemption size are set.

To manage the liquidity risk, a cash buffer is maintained in the Fund and monitored for minimum cash balances to prevent any extensive disposition of assets which may occur at lower prices and overdraft situations to meet trade settlements and obligations.

The Fund's securities are considered readily realisable, as all the securities are listed on recognised stock exchanges.

The Fund's financial liabilities is contracted undiscounted cash flows for maturity groupings based on the remaining period at the Statement of Financial Position date to the contractual maturity date. As at 31 December 2016 and 31 December 2015, all liabilities are either payable on demand or due in less than 3 months. The impact of discounting is not significant.

	<b><u>Less than 3 months</u></b>	
	As at <b>31 December 2016</b> S\$	As at 31 December 2015 S\$
<b>Liabilities</b>		
Payables	47,187	44,995
Purchases awaiting settlement	34,592	-
<b>Contractual cash outflows</b>	<b>81,779</b>	<b>44,995</b>

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### NOTES TO THE FINANCIAL STATEMENTS

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#### 7. Financial risk management (continued)

##### (e) Credit risk

Credit risk is the risk that a counterparty will be unable to fulfil its obligations to the Fund in part or in full as and when they fall due.

Concentrations of credit risk are minimised primarily by:

- ensuring counterparties as well as the respective credit limits are approved;
- ensuring there are controls in place to identify and assess the creditworthiness of counterparties and review such controls on a semi-annual basis; and
- ensuring that transactions are undertaken with a large number of counterparties.

All trade settlement with approved counterparties are on Delivery versus Payment and/or Receipt versus Payment basis, with the exception of initial public offerings, new issues and placement transactions.

Credit risk arises from cash and bank balances, and outstanding and committed transactions with brokers. The table below summarises the credit rating of banks and custodians in which the Fund's assets are held as at 31 December 2016 and 31 December 2015.

	<b>Credit rating as at 31 December 2016</b>	Credit rating as at 31 December 2015	<b>Source of credit rating</b>
<b>Bank balance</b>			
- BNP Paribas Securities Services Singapore Branch	<b>A</b>	A+	Standard & Poor's
<b>Custodian</b>			
- BNP Paribas Securities Services Singapore Branch	<b>A</b>	A+	Standard & Poor's

The credit ratings are based on Long-Term Local Issuer Ratings published by the rating agency.

The maximum exposure to credit risk at the reporting date is the carrying amount of the financial assets.

##### (f) Capital management

The Fund's capital is represented by the net assets attributable to unitholders. The Fund strives to invest the subscriptions of redeemable participating units in investments that meet the Fund's investment objectives while maintaining sufficient liquidity to meet unitholder redemptions.

## NIKKO AM SHENTON EMERGING ENTERPRISE DISCOVERY FUND

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### NOTES TO THE FINANCIAL STATEMENTS

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#### 7. Financial risk management (continued)

##### (g) Fair value estimation

The Fund classifies fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

The following table analyses within the fair value hierarchy the Fund's financial assets and liabilities (by class) measured at fair value at 31 December 2016 and 31 December 2015:

#### 31 December 2016

	Level 1 S\$	Level 2 S\$	Level 3 S\$	Total S\$
<b>Assets</b>				
Financial assets designated at fair value through profit or loss at inception:				
- Quoted equities	4,309,623	-	-	4,309,623
	<u>4,309,623</u>	<u>-</u>	<u>-</u>	<u>4,309,623</u>

#### 31 December 2015

	Level 1 S\$	Level 2 S\$	Level 3 S\$	Total S\$
<b>Assets</b>				
Financial assets designated at fair value through profit or loss at inception:				
- Quoted equities	5,360,474	-	-	5,360,474
	<u>5,360,474</u>	<u>-</u>	<u>-</u>	<u>5,360,474</u>

Investments whose values are based on quoted market prices in active markets, and therefore classified within level 1, include active listed equities. The fund does not adjust the quoted price for these instruments.

Except for cash and bank balances which are classified as level 1, the Fund's assets and liabilities not measured at fair value at 31 December 2016 and 2015 have been classified as level 2. The carrying amounts of these assets and liabilities approximate their fair values as at the Statement of Financial Position date.

## NIKKO AM SHENTON EMERGING ENTERPRISE DISCOVERY FUND

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### NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 31 December 2016

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#### 8. Related party transactions

In addition to related party information shown elsewhere in the financial statements, the following significant transactions took place during the financial year between the Fund and a related party at terms agreed between the parties and within the provisions of the Deeds.

	2016 S\$	2015 S\$
Bank balance held with related party of the Trustee	<u>325,553</u>	<u>253,551</u>

#### 9. Financial ratios

##### Expense ratio

		2016	2015
Total operating expenses	S\$	158,665	145,257
Average daily net asset value	S\$	4,931,937	5,191,321
<b>Total expense ratio<sup>1</sup></b>	<b>%</b>	<b><u>3.22</u></b>	<b><u>2.80</u></b>

##### Turnover ratio

		2016	2015
Lower of total value of purchases or sales	S\$	5,352,759	3,381,395
Average daily net asset value	S\$	4,931,937	5,191,321
<b>Total turnover ratio<sup>2</sup></b>	<b>%</b>	<b><u>108.53</u></b>	<b><u>65.14</u></b>

<sup>1</sup> The expense ratio has been computed based on the guidelines laid down by the Investment Management Association of Singapore ("IMAS"). The calculation of expense ratio at the financial year end was based on total operating expenses divided by the average net asset value for the year. The total operating expenses do not include (where applicable) brokerage and other transactions costs, performance fee, interest expense, distribution paid out to unitholders, foreign exchange gains/losses, front or back end loads arising from the purchase or sale of other funds and tax deducted at source or arising out of income received. The Fund does not pay any performance fee. The average net asset value is based on the daily balances.

<sup>2</sup> The portfolio turnover ratio is calculated in accordance with the formula stated in the Code on Collective Investment Schemes. The calculation of the portfolio turnover ratio was based on the lower of the total value of purchases or sales of the underlying investments, divided by the average daily net asset value. In line with Statement of Recommended Accounting Practice 7 "Reporting framework for Unit Trusts" ("RAP 7") issued by the Institute of Singapore Chartered Accountants in June 2012, total value of purchases or sales for the current year do not include brokerage and other transaction costs.

## NIKKO AM SHENTON EMERGING ENTERPRISE DISCOVERY FUND

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### REPORT TO UNITHOLDERS

For the financial year ended 31 December 2016

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The following contains additional information relating to the Fund.

**1. Distribution of investments**

Please refer to the Statement of Portfolio on pages 15 to 19.

**2. Credit rating of debt securities**

Nil.

**3. Top 10 holdings**

**10 Largest holdings at 31 December 2016**

	Fair value S\$	Percentage of total net assets attributable to unitholders %
China Medical System Holdings Limited	167,040	3.60
8990 Holdings Incorporated	151,116	3.26
Egis Technology Incorporated	142,547	3.07
Chularat Hospital Public Company Limited	125,073	2.70
ASM Pacific Technology Limited	117,869	2.54
Universal Medical Financial & Technical Advisory Services Company Limited	114,067	2.46
JNBY Design Limited	111,772	2.41
Dadi Early-Childhood Education Group Limited	109,555	2.37
Hindustan Zinc Limited	102,964	2.22
Indusind Bank Limited	96,313	2.08

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## NIKKO AM SHENTON EMERGING ENTERPRISE DISCOVERY FUND

(Constituted under a Trust Deed registered in the Republic of Singapore)

### REPORT TO UNITHOLDERS

For the financial year ended 31 December 2016

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#### 3. Top 10 holdings (continued)

10 Largest holdings at 31 December 2015	Fair value S\$	Percentage of total net assets attributable to unitholders %
Chularat Hospital Public Company Limited	323,726	5.81
China Medical System Holdings Limited	288,536	5.18
Wasion Group Holdings Limited	214,463	3.85
China Traditional Chinese Medicine Company Limited	184,164	3.30
Wisdom Sports Group	179,026	3.21
Phoenix Healthcare Group Company Limited	162,528	2.92
3Sbio Incorporation	156,340	2.81
Sinosoft Technology Group Limited	143,000	2.57
Tipco Foods Public Company Limited	140,812	2.53
Eclat Textile Corporation Limited	137,107	2.46

#### 4. Exposure to financial derivatives

Nil.

#### 5. Global exposure to financial derivatives

Nil.

#### 6. Collateral

Nil.

#### 7. Securities lending or repurchase transactions

Nil.

#### 8. Investment in unit trusts, mutual funds and collective investment schemes

Nil.

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## **NIKKO AM SHENTON EMERGING ENTERPRISE DISCOVERY FUND**

*(Constituted under a Trust Deed registered in the Republic of Singapore)*

### **REPORT TO UNITHOLDERS**

*For the financial year ended 31 December 2016*

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#### **9. Borrowings**

Nil.

#### **10. Amount of units created and cancelled for the financial year ended 31 December 2016**

	<b>S\$</b>
Units created	76,178
Units cancelled	(738,267)

#### **11. Turnover ratio**

Please refer to Note 9 of the Notes to the Financial Statements on page 32.

#### **12. Expense ratio**

Please refer to Note 9 of the Notes to the Financial Statements on page 32.

#### **13. Related party transactions**

Please refer to Note 8 of the Notes to the Financial Statements on page 32.

#### **14. Any other material information that will adversely impact the valuation of the fund**

Nil.

Intentionally left blank.

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Website: [www.nikkoam.com.sg](http://www.nikkoam.com.sg)

Company registration number 198202562H