

# Nikko AM Wholesale Property Fund

## Fund manager

Nikko Asset Management New Zealand Limited (Nikko AM NZ).

In New Zealand we actively manage around NZ\$5 billion of investments for a diverse group of clients, including superannuation schemes, charitable trusts, KiwiSaver scheme providers, corporations and local government along with providing services to financial intermediaries through wrap platforms.

We offer investment management services in domestic sectors (equities, fixed interest and cash) through our Auckland-based investment team and employ offshore managers to manage global sectors (global equities, global bonds and alternative investments).

## Fund launch

February 2010

## Investment objective

To construct a portfolio of authorised investments that aims to outperform the Fund's benchmark return by 1.5% per annum over a rolling three year period before fees.

## Benchmark

S&P/NZX All Real Estate (Industry Group) Gross with Imputation Index

## Investment process

Nikko AM NZ is an active style neutral manager with a lower risk approach to investment. Each investment is conducted by considering a suitable pool of securities highlighted from our four stage investment process which centres around the index, market screening, and research and risk management functions.

While the process focuses on New Zealand listed property securities, the Fund retains the ability to invest up to 30% into Australian listed property companies on an opportunistic basis. Final investment positions are created following consideration of the underlying constituents representation within the benchmark combined with the investment parameters set by the managers. It is expected that each investment position will

represent a modest variance to the underlying benchmark constituent representation.

## Structure and taxation

The Fund vehicle is a NZ domiciled Portfolio Investment Entity (PIE) which is priced daily. Investors elect their own Prescribed Investor Rate. The Fund invests directly into tradeable capital market securities. Whilst the majority of the return is "excluded income" there will be a portion of interest income, dividends not fully imputed, and certain ASX listed shares that will not fit the criteria for trading gains/losses to be excluded. Information is provided to the IR and investors on an annual basis.

## Distributions

Generally on calendar quarters or at any date for any period determined by the Manager.

## Currency management

Our base position is to fully hedge to NZD any foreign currency exposures created as a consequence of capital markets investment. Currency hedging is at the discretion of the Manager and maybe unhedged or partially hedged from time to time - within an operational range of 0% to 105%.

## Management fees and other charges

Investment management fees will be negotiated separately with each investor and invoiced outside the Fund.

All Fund statutory and operating costs will be met directly by the Manager.

## Buy/sell spread

0.245% / 0.245%

## Trustee

Public Trust

## Custodian

Public Trust as legal custodian, BNP Paribas Fund Services Australasia Pty Limited delegated as functional custodian.

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### Performance (NZD gross returns)

	Fund	Benchmark	Excess
1 month	1.19%	1.30%	-0.11%
3 months	0.90%	0.39%	0.52%
6 months	0.95%	0.94%	0.02%
1 year	0.45%	-0.19%	0.64%
2 years	8.76%	8.61%	0.15%
3 years	14.00%	14.19%	-0.19%
5 years	12.66%	14.19%	-1.53%

### Fund size

NZ\$34 million

### Attribution

What helped	What hurt
Argosy Property OW	Vital Healthcare UW
Precinct Properties UW	Metlifecare OW
Kiwi Property Group UW	Centuria Industrial OW

OW: overweight; UW: underweight; NP: neutral position; NH: no holding

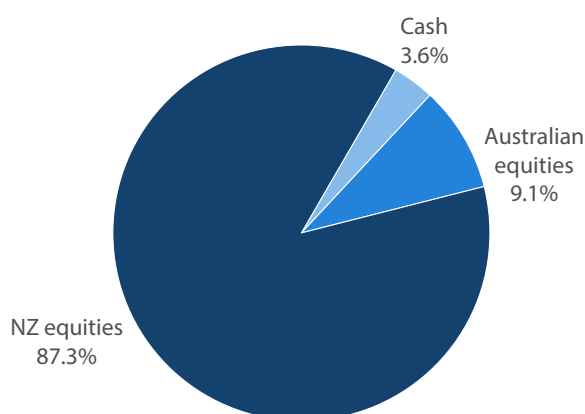
### Top 5 holdings

Kiwi Property Group	Goodman Property Trust
Argosy Property Limited	Precinct Properties NZ
Stride Stapled Group	
<b>Number of holdings in Fund</b>	<b>17</b>

### Hedging

Australian listed stocks are 96.8% hedged to NZD

### Asset allocation



### Compliance

The Fund complied with its investment mandate during the month.

### Commentary

Despite continued concerns around North Korean tension, globally equities continued their strong year with the MSCI World index up 1.3% for the month. The New Zealand Property index rose 1.3% over the month but wasn't able to match the broader market which saw the S&P/NZX 50 index up 2.5%. The Australian property sector put in a solid performance for the month, up 5.6% and ahead of the broader market as measured by the S&P/ASX 200 index which was up 1.0%.

The fund ended the month up 1.19%, 0.11% behind the index. The largest positive contributors to relative return were an overweight position in Argosy Property (ARG) and underweight positions in Precinct Properties (PCT) and Kiwi Property (KPG). ARG, the fund's largest overweight position rose 4.1%, recovering from a weak end to the previous month while KPG was flat over the month and PCT fell 1.2%. The largest detractors to relative performance was an underweight in Vital Healthcare (VHP) and overweights in Metlifecare (MET) and Centuria Industrial REIT (CIP). VHP rose 7.1% following a bid for Australian listed Generation Healthcare (GHC) by the manager of VHP. The bid was at a 45% premium to last reported net tangible assets. MET was affected by the placement of 20% of the company by a large shareholder. The placement was at a 7.6% discount to the last traded price and the fund added to its position through this placement. The stock had recovered 3.6% from the placement price by the end of the month. CIP lost 1.2% (in AUD) over the month on no specific news.

The key portfolio change during the month was adding to MET through a divestment of a major shareholder at a 7.6% discount to where the stock had been trading.

KPG made several announcements during the month including a land acquisition, portfolio revaluation and also the result of the NPT special meeting and KPG's proposal. KPG has acquired two strategic adjacent parcels of land totalling 42.7 hectares for \$39.8m and has a right of first refusal over another adjacent 8.7 hectares. The land is in Drury, South of Auckland and KPG plans to develop a town centre which would be staged over the next 20 years. KPG also announced a 1.3% or \$38 million property portfolio revaluation for the year ended March. During the month the spotlight fell on NPT's Special Shareholder Meeting where KPG had proposed to buy the management rights and also sell NPT two properties. The proposal was opposed by Augusta Capital (AUG) who were proposing to remove two of NPT's Directors and install three Directors nominated by AUG. KPG were unsuccessful in their proposal while AUG's Director nominations were supported. Other news during the month was a proposal by Property for Industry (PFI) to internalise the management of the business for a payment of \$42 million. A shareholder vote will be held in June.

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