

NIKKO AM PROPERTY STRATEGY

Applies to: Nikko AM Wholesale Property Fund

Market Overview

- Equity markets tumbled during the quarter.
- The S&P 500 index fell 17.1%, the Nikkei 225 index was down 16.4%, the FTSE 100 index lost 10.5% and the MSCI World Index ended down 15.6%.
- S&P/NZX Real Estate index was up 0.8% and well ahead of the S&P/NZX 50 index which was down 5.6%. The Australian property index fell 0.9%.

Fund Highlights

- Fund underperformed by 0.7% relative to the index over the quarter.
- A number of the fund's holdings reported half year earnings results during the quarter.
- Retirement sector holdings in the fund dragged on performance while an overweight position in **Argosy Property** and underweight positions in **Vital Healthcare** and **Kiwi Property** added value.

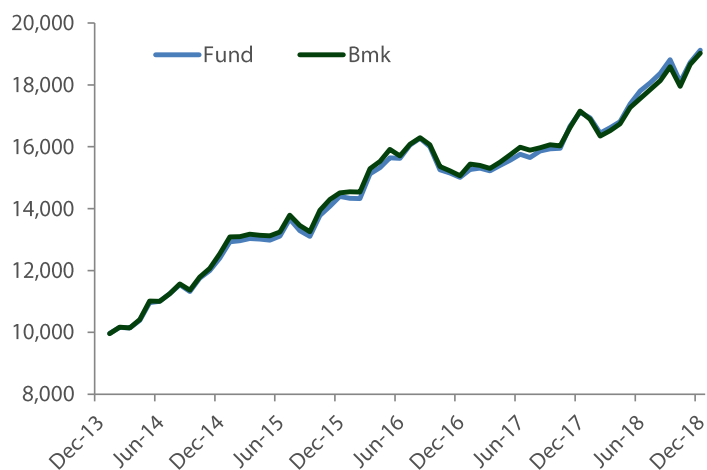
Performance

	One month	Three months	One Year	Three years (p.a)	Five years (p.a)	Ten years (p.a)
Wholesale ¹	2.12%	1.64%	11.73%	9.94%	13.85%	
Benchmark ²	1.91%	2.34%	10.88%	9.45%	13.72%	

1. Returns are before tax and before the deduction of fees

2. Benchmark: S&P/NZX All Real Estate Industry Group Gross with Imputation Credits Index. No tax or fees.

Five Year Cumulative Performance^{1, 2}



Portfolio Manager

Michael Sherrock,

Portfolio Manager, CFA

Michael joined Nikko AM in 2006 and covers the Energy, Material, Real estate/property and Retirement sectors. He has over 19 years' experience and previously worked for Schrodgers UK and ASB Group Investments NZ.



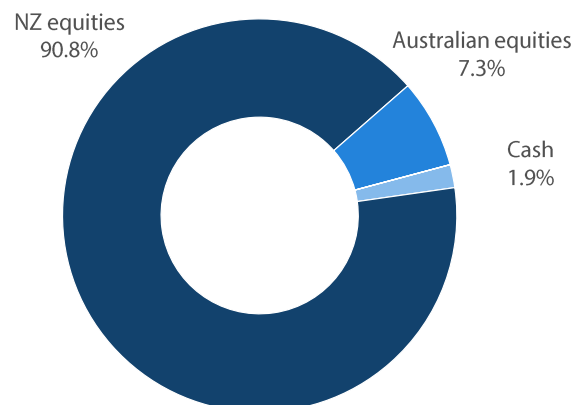
Overview

The Property Strategy provides investors with an exposure to New Zealand listed property securities and, on an opportunistic basis, Australian listed property securities from an actively managed investment portfolio.

Objective

The fund aims to outperform the benchmark return by 1.5% per annum before fees, expenses and taxes over a rolling three year period.

Asset Allocation



Attribution to Performance			
What Helped		What Hurt	
Argosy Property	OW	Metlifecare	OW
Goodman Property Trust	UW	Summerset Group	OW
Vital Healthcare	UW	Ingenia	OW

OW: overweight; UW: underweight; NH: no holding – month end position

Top 10 holdings			
Kiwi Property Group	19.41%	Investore Property	5.88%
Argosy Property Limited	15.97%	Property for Industry	4.64%
Stride Stapled Grp NPV	11.88%	Metlifecare Ltd	3.56%
Precinct Properties	11.45%	Vital Healthcare	3.54%
Goodman Property Trust	10.65%	Ingenia Comm	3.33%
Number of holdings			16

Market Commentary

Equity markets performed poorly over the quarter, impacted by the never ending back and forward on trade and tariff positioning from the United States and China. The United States S&P 500 index fell 17.1%, the Japanese Nikkei 225 index was down 16.4%, the FTSE 100 index lost 10.5% and the MSCI World index ended down 15.6%. NZ and Australian markets followed suit with the S&P/NZX 50 Index being down 5.6%, placing it as one of the better performing markets globally during the quarter. The Australian property sector also outperformed the broader index although it did lose 0.9%, compared to the 8.2% fall of the S&P/ASX 200 index.

Fund Commentary

The fund ended the quarter up 1.6% but 0.7% behind the index which was up 2.3%. It was a busy quarter in terms of news flow with seven of the fund’s holdings reporting half-year earnings. The largest positive contributors to relative return was an overweight position in **Argosy Property (ARG)** and underweight positions in **Vital Healthcare (VHP)** and **Kiwi Property (KPG)**. ARG’s half year result was well received by the market and rose 10.9% over the quarter. VHP held its annual unit holder meeting during the quarter where issues around poor corporate governance were raised. VHP fell 0.1% over the quarter. While KPG’s result was fine, late in the quarter they announced that one of their large tenants in the Vero Centre would be vacating in several years. The largest negative contributors to relative return were the retirement holdings **Metlifecare (MET)** and **Summerset (SUM)** and an overweight position in **Stride Property (SPG)**. MET and SUM accounted for more than 100% of the fund’s underperformance with SUM down 18.4% and MET down 17.1%. Both names are more correlated to the broader market and performed accordingly along with being impacted by residential property market sentiment rather than operating conditions. Key portfolio changes during the quarter included adding **Mirvac Group (MGR)** back into the portfolio along with adding to positions in **Garda Diversified Fund (GDF)**, **KPG** and **Property for Industry (PFI)** and **Ingenia Communities (INA)**. The fund participated in GDF’s \$25 million capital raising which will be used to fund its development projects.

(Bold denotes stock held in portfolio)

Key Fund Facts

Distributions

Calendar quarter

Hedging

Foreign currency exposures may be hedged to NZD at the Manager’s discretion within an operational range of 0% to 105%

Currently the fund’s foreign currency exposure 94.5% hedged

Estimated annual fund charges

Wholesale: negotiated outside of fund

Buy / Sell spread:	Strategy Launch	Strategy size
0.20% / 0.20%	February 2010	\$48.8m

Compliance

The Fund complied with its investment mandate and trust deed during the month.

Contact Us

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