Factsheet 28 February 2019

NIKKO AM PROPERTY STRATEGY

Applies to: Nikko AM Wholesale Property Fund

Market Overview

- Equity markets continued their strong start to the year.
- The United States S&P 500 index rose 3.3%, the Japanese Nikkei 225 index was up 2.9%, the FTSE 100 index added 1.5% and the MSCI World index ended up 3.4%.
- While the S&P/NZX Real Estate index was up 1.6%, it was behind the S&P/NZX 50 index which was up 3.8%. The Australian property index rose 1.8%.

Fund Highlights

- Fund was up 1.7% and ahead of the index.
- A number of the fund's holdings reported results for the period ending December 2018 along with a $150m capital raising by Precinct Properties.
- Overweight positions in Summerset and Argosy along with an underweight position in Precinct Properties added value. Underweight positions in Property for Industry and Goodman Property along with an overweight position in Metlifecare detracted value over the month.

Performance

	One month	Three months	One Year	Three years (p.a)	Five years (p.a)	Ten years (p.a)
Wholesale[1]	1.65%	5.02%	19.61%	11.16%	14.13%	
Benchmark[2]	1.59%	5.39%	20.36%	10.62%	14.11%	

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.

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 Schroders UK and ASB Group Investments NZ.

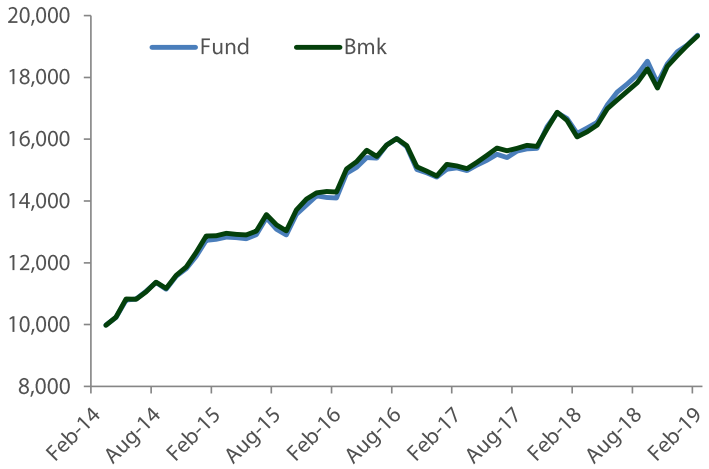
Overview

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.

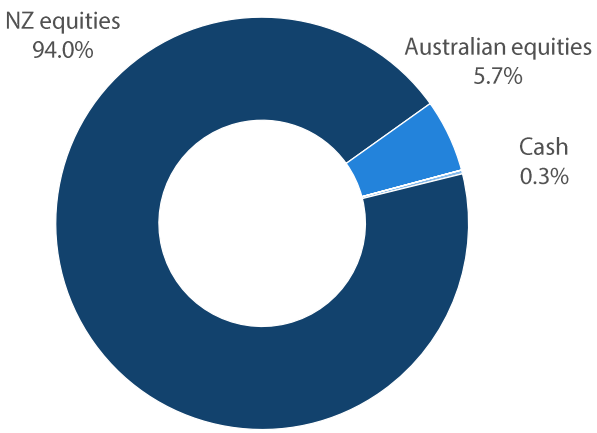
Objective

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

Five Year Cumulative Performance[1, 2]



Asset Allocation



Attribution to Performance	(excludes effects of currency)		
What Helped		What Hurt	
Summerset Group	OW	Property or Industry	UW
Precinct Properties	UW	Metlifecare	OW
Argosy Properties	OW	Goodman Property	UW
OW: overweight; UW: underweight; NH: no holding. Month end position			

Top 10 holdings			
Kiwi Property Group	19.98%	Investore Property	6.10%
Argosy Property Limited	16.43%	Property for Industry	4.97%
Stride Property Group	12.14%	Vital Healthcare	3.62%
Precinct Properties	11.95%	Metlifecare Ltd	3.40%
Goodman Property Trust	11.54%	Ingenia	3.16%
Number of holdings			**16**

Market Commentary

Equity markets backed up the strong January performance with another good month in February. The United States S&P 500 index rose 3.3%, the Japanese Nikkei 225 index was up 2.9%, the FTSE 100 index added 1.5% and the MSCI World index ended up 3.4%. While the New Zealand property sector added 1.6% over the month, it wasn't able to match the broader index with the S&P/NZX 50 index up 3.8%. The Australian property sector had a similar performance, up 1.8% and well behind the broader market which was up 6.0% as measured by the S&P/ASX 200 index.

Fund Commentary

The fund ended the month up 1.7% and 0.1% ahead of the index. The largest positive contributors to relative return were overweight positions in **Summerset Group** (SUM) and **Argosy Property** (ARG) and an underweight position in **Precinct Properties** (PCT). After several weak months on the back of poor housing market sentiment, SUM rose 6.4% following the release of a good full year earnings result. ARG rose 2.9% on no particular news while PCT rose 0.3%. PCT released a good half year result but surprised the market with a $150 million capital raising to fund property developments not expected to commence for a year or two. The largest detractors from relative performance were underweight positions in **Property for Industry** (PFI) and **Goodman Property** (GMT) and an overweight position in **Metlifecare** (MET). PFI, up 4.4%, released its earnings result which showed good progress on leasing. GMT continues to benefit from investors' preference for industrial property exposure and rose 2.8% on no specific news. While MET released a half year earnings result which showed no particular issues, the stock continues to struggle to find support and fell 1.6%.

Key portfolio changes during the month included adding to PCT through the capital raising while making small reductions to ARG and **Ingenia Communities** (INA). The funds holding in Mirvac Group (MGR) was divested while a position in **Viva Energy REIT** (VVR) was added.

(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 97.1% hedged

Estimated annual fund charges

Wholesale: negotiated outside of fund

Buy / Sell spread:	Strategy Launch	Strategy size
0.20% / 0.20%	February 2010	$48.2m

Compliance

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

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