

NIKKO AM PROPERTY STRATEGY

Applies to: Nikko AM Wholesale Property Fund

Market Overview

- Despite long bond yields increasing materially over the month, most global equity markets posted positive returns.
- The United States S&P 500 index rose 2.6%, the Japanese Nikkei 225 index gained 4.7%, the UK FTSE 100 index increased 1.2%, the Australian ASX 200 index added 1.5% and the MSCI World index ended the month up 1.6%.
- The S&P/NZX Real Estate index lost 4.3% but managed to outperform the broader market with the S&P/NZX 50 index down 6.9%. The Australian property index ended the month down 2.5%.

Fund Highlights

- The fund declined 3.9%, 0.4% ahead of the index return.
- A number of the fund's holdings reported results for the period ending December with result generally in line or ahead of market expectations but were overwhelmed by sentiment relating to the long bond sell off.
- Underweight positions in Vital Healthcare and Kiwi Property and an overweight position in Summerset added value. Underweight positions in Property for Industry and Goodman Property and an overweight position in Waypoint REIT detracted from value.

Performance

	One month	Three months	One Year	Three years (p.a)	Five years (p.a)	Ten years (p.a)
Wholesale ¹	-3.86%	-0.55%	2.95%	15.97%	12.36%	14.01%
Benchmark ²	-4.30%	-1.50%	-0.23%	15.59%	11.67%	13.61%

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

Responsible for the Property and NZ Equities Fund. Covers the Property, Energy, Materials and Retirement sectors. Nineteen years of experience within the finance industry including Schroders in the UK and ASB Group Investments in New Zealand. Michael holds a Bachelor of Commerce degree from the University of Auckland and is a CFA charter holder. Joined in 2006.



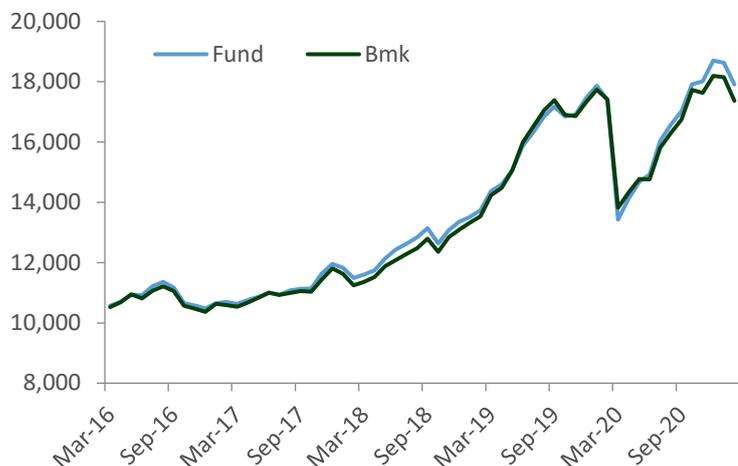
Overview

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.

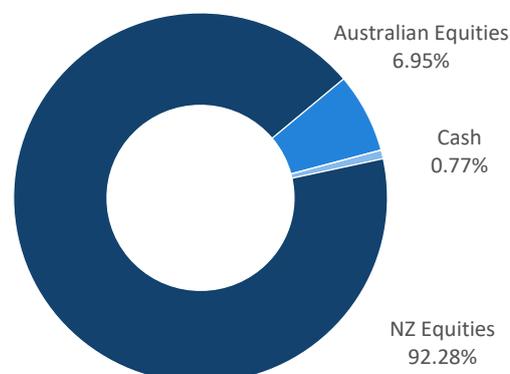
Objective

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, \$10,000 invested^{1, 2}



Asset Allocation



Attribution to Performance (month)				Top 10 holdings				
What Helped		What Hurt		Goodman Property Trust	17.68%	Investore Property	8.08%	
Summerset Group	OW	Property for Industry	UW	Argosy Property Limited	14.08%	Property for Industry	6.64%	
Vital Healthcare	UW	Waypoint REIT	OW	Stride Stapled Grp Npv	13.40%	Vital Healthcare	4.35%	
Kiwi Property Group	UW	Goodman Property	UW	Kiwi Property Group	13.14%	Summerset Group	2.35%	
OW: overweight; UW: underweight; NH: no holding.				Precinct Properties	11.15%	Waypoint REIT	1.88%	
							Number of holdings	16

Market Commentary

While long bonds sold off across the world, New Zealand was particularly impacted. The New Zealand 10-year government bond traded above 2.0% intra-day before closing the month at 1.90%, up 80bps on the previous month’s close. While a number of companies reported in line or better than expected results for the period ending December, the bond movement dominated. This flowed through to a sell-off in the equity market, in particular yield stocks such as property.

Fund Commentary

The fund ended the month down 3.9% and 0.4% ahead of the index which fell 4.3%. The largest positive contributors to relative return were underweight positions in **Vital Healthcare (VHP)** and **Kiwi Property (KPG)** and an overweight position in **Summerset (SUM)**. Despite reporting a good half year result and signalling a small distribution increase, VHP fell 6.4% over the month as it was hit particularly hard by the bond movements due to its long lease terms. KPG fell 7.4% as another lockdown created concern among investors around its retail property exposure. SUM rose 5.6% over the period following reporting a result slightly above its guidance range, signalling an increased build rate for the year ahead and also benefitting from the strong residential property market.

The largest detractors from relative performance were underweight positions in **Property for Industry (PFI)** and **Goodman Property (GMT)** and an overweight position in **Waypoint REIT (WPR)**. While both PFI and GMT fell over the month, down 1.1% and 2.7% respectively, these falls were better than the index return and as a result our underweight positions detracted from relative value. As with VHP, WPR suffered from its long weighted average lease term, effectively long duration which doesn’t help in a long bond sell off. WPR ended the month down 7.0% (in AUD).

The fund added to its position in **Precinct Property (PCT)** while small reductions were made to **Asset Plus (APL)**, **Ingenia Communities (INA)**, **Stride Property (SPG)** and **Investore Property (IPL)**.

(**Bold** denotes stocks held in the portfolio)

Key Fund Facts

Distributions	Estimated annual fund charges		
Calendar quarter	Wholesale: negotiated outside of fund		
Hedging	Buy / Sell spread:	Strategy Launch	Strategy size
Foreign currency exposures may be hedged to NZD at the Manager’s discretion within an operational range of 0% to 105%.	0.20% / 0.20%	February 2010	\$51m
Currently the fund’s foreign currency exposure is 98.3% hedged.			

Compliance

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

Contact Us

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