

Nikko AM Wholesale Property Fund

Fund manager

Nikko Asset Management New Zealand Limited (Nikko AM).

Nikko AM is Asia's premier global asset manager. In New Zealand we actively manage NZ\$4 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

Over a rolling three year period, to achieve a return that exceeds the benchmark by 1.5% per annum, before fees.

Benchmark

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

Investment process

Nikko AM 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, 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 pure 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 Unit Trust and Portfolio Investment Entity (PIE) which is priced daily. Unit holders elect their own Portfolio Investment 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 will not fit the criteria for trading gains/losses to be excluded. Information is provided to the IRD and unit holders on an annual basis.

Distributions

At any date for any period fixed by the Manager

Hedging policy

AUD exposures are hedged to the NZD at the discretion of the Manager. Hedging is based on the gross asset value of the Fund.

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

0.30% / 0.30%

Trustee

Public Trust

Custodian

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

Selected investors only

Participation in the Fund is limited to persons or entities who are New Zealand resident, and:

(a) whose principal business is the investment of money; or

(b) who, in the ordinary course of and for the purposes of their business, habitually invest money;

and, consequently (or for other reasons) do not constitute "the public" for the purposes of the Securities Act 1978 (**Exempt Person**). Nikko AM will not therefore be required to produce a registered prospectus or an investment statement in relation to the proposed investment (such documents otherwise being required were this offer to be made to persons or entities that are not Exempt Persons), and such documents will not be produced accordingly. Investors in the Fund will be required to acknowledge their status as an Exempt Person as part of their subscription in the Fund. Investors in the Fund will also be required to undertake to Nikko AM that any transfers of interests in the Fund will only be to Exempt Persons.

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General Enquiries: NZenquiries@nikkoam.com | +64 9 307 6363

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Performance (NZD gross returns)

	Fund %	Benchmark %	Excess %
1 month	-0.40	0.29	-0.69
3 months	4.02	4.34	-0.32
6 months	4.87	5.52	-0.65
1 year	10.90	11.15	-0.25
2 years	19.93	20.89	-0.96
3 years	14.52	14.45	0.06

Fund size \$74 million

Attribution

What helped	What hurt
Precinct Properties	UW Vital Healthcare
NPT Limited	UW Ingenia Communities
Garda Diversified Prop	OW Metlifecare

OW = overweight; UW = underweight; NH = no holding, N = neutral

Top 5 holdings

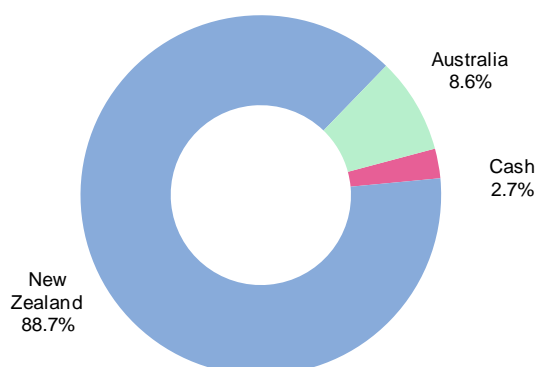
- Kiwi Property Group
- Argosy Property Limited
- Stride Property Limited
- Goodman Property Trust
- Precinct Properties New Zealand

Number of holdings in portfolio **20**

Hedging

Australian listed stocks are 98.2% hedged to NZD

Asset allocation



Compliance

The Fund complied with its investment mandate during the month.

Commentary

Markets had a very volatile start to 2016 as they were impacted by oil and resource prices continuing to tumble, Japan moving to negative rates and continuing concerns around the Chinese economy. While the MSCI World index fell 6%, the NZ market was one of the better performers globally, down only 2.4% as measured by the S&P/NZX 50 index while the S&P/ASX 200 index dropped 5.5%. The property sectors in New Zealand and Australia performed relatively strongly, both ending the month up 0.3% as measured by the S&P/NZX Real Estate index and S&P/ASX 200 Real Estate index respectively. Interestingly only four of the twenty members of the Australian property index posted positive returns but the index return was skewed by several large members ending up for the month.

The Fund was not able to back up the strong end to 2015, ending the month down 0.4% and 0.7% behind the benchmark return. The largest positive contributors to relative return were underweight positions in **Precinct Properties** (PCT) and **NPT** (NPT) which were down 1.6% and 5.9% respectively. The largest negative contributor to relative performance was an underweight position in **Vital Healthcare** (VHP) which rose 2.1%. This was followed by out of benchmark holdings in the retirement sector with **Ingenia Communities** (INA), **Metlifecare** (MET), **Summerset** (SUM) and **Arvida** (ARV) falling 7.1% (in AUD), 4.5%, 2.7% and 3.2% respectively. There was no specific news driving these stocks other than a higher correlation to the broader market and INA giving back some of its strong December performance.

Key portfolio changes during the month included reducing the Fund's cash weight while increasing the overweight positions in **Argosy Property** (ARG) and **Stride Property** (STR) and reducing the underweight positions in PCT and **Kiwi Property Group** (KPG).

Ahead of December period end results being announced in February, there was very little news across the portfolio holdings during January. SUM released strong sales numbers for the December quarter, taking full year sales and resales to record levels. We await the full year result in February which will confirm a strong year, in line with their guidance. Vodafone, which occupies a mid size office building owned by **Goodman Property Trust** (GMT) confirmed they would not be renewing their lease which expires in 2017.

(**Bold** denotes stock held in portfolio. (cps - cents per share stapled security).