

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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Performance (NZD gross returns)

	Fund %	Benchmark %	Excess %
1 month	-0.10	-0.11	0.01
3 months	1.69	1.65	0.04
6 months	7.75	8.04	-0.29
1 year	10.45	10.98	-0.54
2 years	18.74	19.54	-0.80
3 years	13.52	13.44	0.08

Fund size \$69.3 million

Attribution

What helped		What hurt	
Metlife Care	OW	Mirvac Group	OW
Property for Industry	UW	360 Capital Industrial	OW
Kiwi Property Group	UW	Stride Property	OW

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

Top 5 holdings

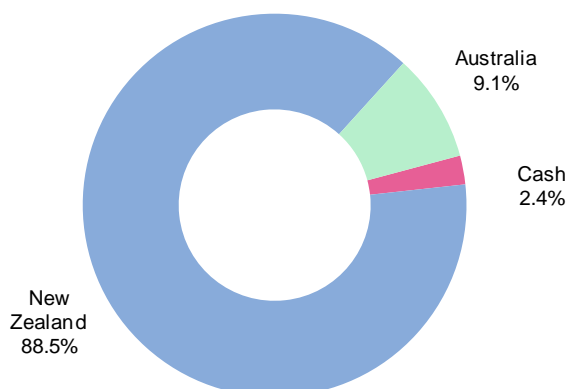
- Kiwi Property Group
- Argosy Property Limited
- Stride Property Limited
- Goodman Property Trust
- Precinct Properties

Number of holdings in portfolio **20**

Hedging

Australian listed stocks are 97% hedged to NZD

Asset allocation



Compliance

The Fund complied with its investment mandate during the month.

Commentary

While only marginally negative, the -0.1% return from the S&P/NZX Real Estate index was the first negative monthly return in five months and behind the broader market which rose 1.0% as measured by the S&P/NZX 50 index. In Australia the reverse occurred with the property sector outperforming the broader market. The S&P/ASX 200 Real Estate index rose 2.8% over the month while the S&P/ASX 200 index continued its poor start to the year falling another 1.8%.

The Fund ended the month in line with the benchmark return, down 0.1%. The largest positive contributors to relative return was an overweight position in **Metlifecare** (MET) and underweight positions in **Property for Industry** (PFI) and **Kiwi Property Group** (KPG). MET rose 7.5% following a strong half year result which was supported by the buoyant Auckland housing market. KPG and PFI fell 0.4% and 0.7% respectively. KPG's move was on no specific news while PFI reported a result broadly in line with expectations but forecast another year of no distribution growth. The largest negative contributors to relative performance were Australian securities **Mirvac Group** (MGR) and **360 Capital Industrial Fund** (TIX) along with an overweight position in **Stride Property** (STR). MGR and TIX both reported result in line with expectations and reconfirmed their distribution guidance but fell 3.7% and 0.4% respectively (in AUD). STR pulled back 1.2% over the month on no specific news.

Key portfolio changes during the month included reducing the Fund's positions in KPG and **Goodman Property** (GMT) while increasing exposure to MET, **Argosy Property** (ARG) and MGR.

February saw PFI report its result for the year ending 31 December while **Vital Healthcare** (VHP) and **Precinct Properties** (PCT) both reported half year results. Key metrics within the sector remain strong with low vacancy, modest gearing relatively long weighted average lease terms. Rental growth remains low with leases linked to the consumer price index - a drag due to the low inflation environment. All Australian holdings in the Fund reported six month results during the month. There were no surprises with earnings and dividend guidance maintained.

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