

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\$4.8 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.

This document is issued by Nikko Asset Management New Zealand Limited (Company No. 606057, FSP No. FSP22562) investment manager and promoter of the products included in this document. This information is for the use of researchers, financial advisers and wholesale clients. This material has been prepared without taking into account a potential investor's objectives, financial situation or needs and is not intended to constitute personal financial advice, and must not be relied on as such. Recipients of this document, who are not habitual investors, or their duly appointed agent, should consult a qualified and appropriately Authorised Financial Adviser and the current Investment Statement, Prospectus or Information Memorandum. Applications to invest will only be accepted if made on an application form attached to that current Investment Statement or Information Memorandum. Past performance is not a guarantee of future performance. While we believe the information contained in this presentation is correct at the date of presentation, no warranty of accuracy or reliability is given and no responsibility is accepted for errors or omissions including where provided by a third party.

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

Nikko AM Wholesale Property Fund

Performance (NZD gross returns)

	Fund %	Benchmark %	Excess %
1 month	5.63	5.22	0.41
3 months	5.10	5.41	-0.30
6 months	15.43	15.39	0.04
1 year	16.06	16.04	0.02
2 years	22.12	22.77	-0.65
3 years	14.99	14.58	0.40

Fund size \$74 million

Attribution

What helped	What hurt
Precinct Properties	UW Vital Healthcare
MetlifeCare	OW Goodman Property
Summerset Holdings	OW Ingenia Communities

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

Top 5 holdings

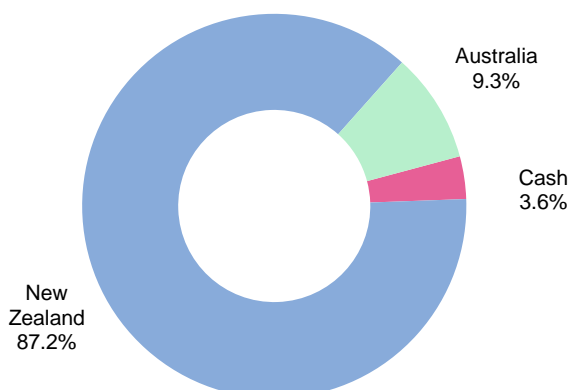
- Kiwi Property Group
- Argosy Property Limited
- Stride Property Limited
- Goodman Property Trust
- Precinct Properties NZ

Number of holdings in portfolio **20**

Hedging

Australian listed stocks are 94.5% hedged to NZD

Asset allocation



Compliance

The Fund complied with its investment mandate during the month.

Commentary

Global equity markets had a very volatile start to 2016, dropping significantly in January before rebounding strongly in March with the end result being the MSCI World index was down 2.2%. Locally, the Reserve Bank of New Zealand cut the Official Cash Rate (OCR) twice including a surprise cut in early March. The New Zealand equity market was an outstanding performer over the quarter, up 7.2% as measured by the S&P/NZX 50 index. While the Property sector had a good quarter it was not able to keep pace with the broader market, ending the period up 5.4% as measured by the S&P/NZX Real Estate index. The Australian property sector also had a good quarter with the S&P/ASX 200 Real Estate index posting a 5.9% return and well ahead of the broader market which fell 2.8%.

While the Fund had a strong end to the quarter it was not able to recover from a poor month in January and ended the quarter up 5.1% but behind the benchmark by 30bps. The largest positive contributors to relative return were out of index positions in **Metlifecare** (MET) and **Summerset Group** (SUM) along with an underweight position in **Precinct Properties** (PCT). Both MET and SUM reported strong results during the quarter and as a result provided returns of 13.8% and 9.5% respectively. PCT reported an unsurprising half year result and with a relatively low forecast yield and large project ahead of it investors were reluctant to push the stock any higher and as a result PCT only returned 1.7% for the quarter. The largest detractors from relative performance were underweight positions in **Vital Healthcare** (VHP) and **Goodman Property Trust** (GMT). VHP rose 10.1% in the quarter following announcing an increase in their forecast dividend along with the acquisition of several aged care properties. GMT rose 8.2% following announcing a solid preliminary portfolio revaluation of more than 6% for the year ended March 2016.

Key portfolio changes over the quarter included adding to positions in **Argosy Property** (ARG), **Stride Property** (STR) and MET. Positions in GMT and SUM were both reduced relative to the benchmarks weights.

The quarter 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. Along with those reporting results, **Kiwi Property Group** (KPG) and GMT both announced preliminary revaluations with KPG up 7% and GMT up more than 6%.

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