

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.

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Performance (NZD gross returns)

	Fund %	Benchmark %	Excess %
1 month	1.34	1.58	-0.24
3 months	6.94	6.76	0.18
6 months	11.24	11.40	-0.16
1 year	17.76	18.18	-0.43
2 years	21.45	22.14	-0.69
3 years	13.85	13.80	0.04

Fund size \$74 million

Attribution

What helped	What hurt
360 Capital Industrial	NI Mirvac Group
Arvida Group	NI Ingenia Communities
Property for Industry	OW Stride Property

OW = overweight; UW = underweight; NH = no holding, N = neutral, NI = not in index.

Top 5 holdings

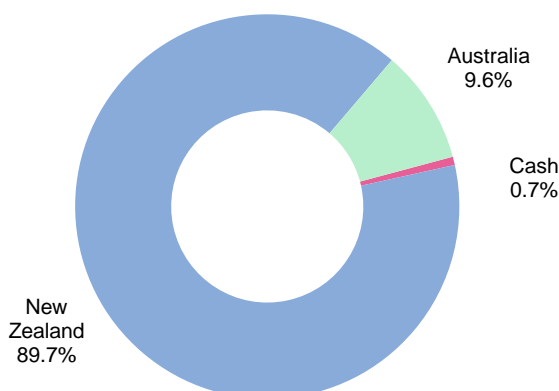
- Kiwi Property Group
- Argosy Property Limited
- Stride Property Limited
- Goodman Property Trust
- Precinct Properties New Zealand

Number of holdings in portfolio **20**

Hedging

Australian listed stocks are 99.3% hedged to NZD

Asset allocation



Compliance

The Fund complied with its investment mandate during the month.

Commentary

Global equity markets generally posted positive returns for the month of April with the materials and energy sectors performing particularly well on the back of a jump in commodity prices. The Australian market was particularly strong, up 3.4% for the month as measured by the S&P/ASX 200 index, driven by a 15.4% jump in the S&P/ASX 200 Resource Index. The Australian property sector wasn't able to match the return of the broader market but still returned a respectable 2.1%. The New Zealand property sector rose 1.6%, ahead of the broader market which was up 1.0% as measured by the S&P/NZX 50 index.

The Fund wasn't quite able to match the performance of the benchmark, up 1.58% for the month. The largest positive contributors to relative return were out of index positions in **360 Capital Industrial Fund (TIX)** and **Arvida Group (ARV)** and an underweight position on **Property for Industry (PFI)**. No specific news drove TIX's and ARV's 6.2% (in AUD) and 10.3% returns respectively or PFI's below index return of 1.2%. The largest detractors from relative performance were out of index positions in **Mirvac Group (MGR)** and **Ingenia Communities (INA)** and an overweight position in **Stride Property (STR)**. MGR had performed well earlier in the month before selling off in the last few days to end down 3.4% (in AUD). INA performed similarly to MGR with a late in the month sell off leading the stock down 2.5% for the month. Despite announcing a 5.2% property revaluation for the year ending March, STR was also pushed down from its all-time high in the middle of April to end up 0.5%.

Key portfolio changes over the month included reducing cash holding and adding to positions in **Argosy Property (ARG)**, **Kiwi Property (KPG)**, STR and MGR.

Seven of the Fund's holdings report results for the year ending March during the month of May and several announced preliminary revaluations during April. The revaluations show that the property market remained well supported during the year with revaluations up between 5% – 7%. As mentioned above, STR's portfolio rose by 5.2% while KPG's rose 7.2%. Other announcements made over the month included KPG announcing that it has agreed to acquire 50% of The Base shopping centre in Hamilton along with an offer to acquire the other half from Tainui Group Holdings. The purchase price for the 50% is \$192.5m (cash) with the offer for the remaining 50% at \$197.5m consisting of \$122.5m in cash and 54,347,826 KPG shares issued at \$1.38 taking total consideration (if offer for remaining 50% is accepted) to \$390m. **Goodman Property Trust (GMT)** also continues to work through its land bank and announced three new uncommitted industrial property developments totalling \$32.4m.

(**Bold** denotes stock held in portfolio. (cpss – cents per share stapled security).