

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

0.245% / 0.245%

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	2.06	2.43	-0.37
3 months	9.25	9.48	-0.23
6 months	11.10	11.28	-0.18
1 year	20.50	21.24	-0.75
2 years	19.47	20.18	-0.71
3 years	14.52	14.28	0.25

Fund size \$51 million

Attribution

What helped		What hurt	
Metlife Care	OW	Vital Healthcare Prop	UW
Arvida Group Ltd	OW	360 Capital Industrial	UW
Summerset Group	OW	Stride Property	OW

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

Top 5 holdings

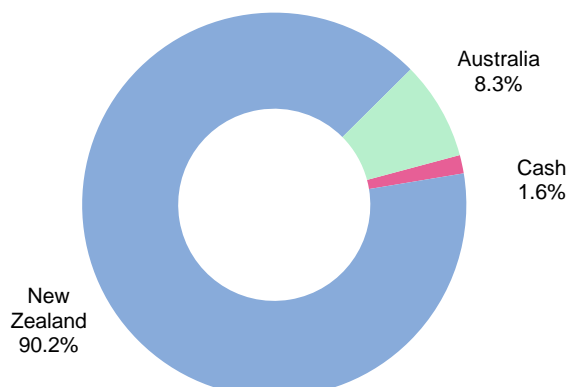
- Kiwi Property Group
- Argosy Property Limited
- Stride Property Limited
- Goodman Property Trust
- Precinct Properties NZ Limited

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 solid returns for the month of May with the UK FTSE being one of the few exceptions as concerns for Brexit hurt its performance. Attention has also turned to the US Federal Reserve where it is increasingly likely that they will raise the Federal Funds Target rate in the coming months. Locally, the New Zealand property sector posted another solid return, up 2.4% but behind the broader market which was up 3.3% as measured by the S&P/NZX 50 index. It was a similar outcome in Australia with the Australian property sector up 2.8% but behind the S&P/ASX 200 index which rose 3.1%.

The Fund posted a 2.06% return for the month but wasn't able to match the performance of the benchmark. The largest positive contributors to relative return came from the retirement sector stocks with **Metlifecare (MET)**, **Arvida Group (ARV)** and **Summerset Group (SUM)** up 14.7%, 14.0% and 8.1% respectively. Both SUM and ARV announced acquisitions during the month with ARV also releasing their financial result for the year ended March. The largest detractors from relative performance was an underweight in **Vital Healthcare (VHP)** and overweights in **360 Capital Industrial Fund (TIX)** and **Stride Property (STR)**. VHP has continued to move higher on no specific news, up 8.9% for the month, and now trades 66% ahead of its asset backing and on a forecast dividend yield of 3.8%. TIX moved lower on the last day of the month ending the period down 2.6% (in AUD) but is still up more than 13% over the last 3 months. Despite delivering a good result, STR ended the month down 0.2%.

Key portfolio changes over the month included adding to the Fund's position in STR while reducing weights in TIX and MET.

Seven of the Fund's holdings reported results for the year ending March during the month of May. Key portfolio metrics remain strong with low vacancy, long weighted average lease term, middle or below their target gearing range, low debt costs and manageable near term lease expirations. Falling capitalisation rates continue to be the driver of valuation increases rather than rental growth which is anaemic - reflective of the low inflation environment we are in. Recycling continues to be the strategy for the property vehicles, with non-core properties being sold and reinvested in existing properties or developing new properties with the result generally being higher quality portfolios. There was little that was unexpected in the result announcements apart from STR announcing a proposed new capital structure and ARV announcing a new retirement village acquisition. STR's proposal is to create a stapled security structure which will enable STR to retain its PIE status while growing its real estate investment management business. ARV continues to grow its portfolio of retirement villages with the latest acquisition being a retirement village and aged care facility in Masterton. This takes ARV's number of facilities up to 22 from the 18 that it had at the time of the initial public offering.

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