

# 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\$5 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

To construct a portfolio of authorised investments that aims to outperform the Fund's benchmark return by 1.5% per annum over a rolling three year period 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, and 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 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

## Currency management

Foreign currency exposures created as a consequence of capital markets investment may be hedged to NZD at the Manager's discretion with an operational range of 0% to 105%.

## 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.

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### Performance (NZD gross returns)

	Fund	Benchmark	Excess
1 month	-0.11%	-1.30%	1.19%
3 months	3.31%	2.70%	0.62%
6 months	8.59%	8.25%	0.34%
1 year	19.15%	18.58%	0.57%
2 years	19.18%	19.48%	-0.30%
3 years	16.29%	15.67%	0.61%

### Fund size

NZ\$36.6 million

### Attribution

What helped	What hurt
Stride Property Limited OW	Vital Healthcare Prop UW
Arvida Group Ltd OW	Kiwi Income Property UW
Property for Industry UW	Argosy Property OW

OW: overweight; UW: underweight; NP: neutral position; NH: no holding

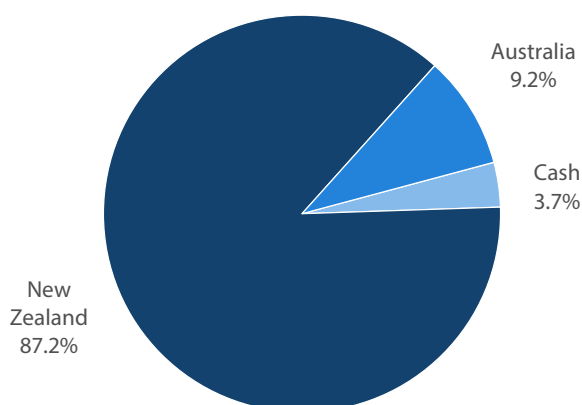
### Top 5 holdings

Stride Property Limited	Goodman Property Trust
Argosy Property Limited	Precinct Properties NZ Limited
Kiwi Property Group	
<b>Number of holdings in fund</b>	<b>20</b>

### Hedging

Australian listed stocks are 94.2% hedged to NZD

### Asset allocation



### Commentary

Over the quarter both the NZ Property index and Australian Property index outperformed their broader markets. The NZ Property sector posted a 2.7% return for the period vs the NZX 50 index which was up 2.3%. The Australian property index was particularly strong, up 8.0% compared to the S&P/ASX 200 index which rose 3.9%.

The Fund had relatively strong end to the quarter, finishing up 3.0%, 0.50% ahead of the benchmark. The largest positive contributors to relative return were overweight positions in Stride Property (STR) and Arvida Group (ARV) along with an underweight position in Property for Industry (PFI). STR (up 7.8% over the quarter) benefited following the announcement

of a new capital structure along with a demerger and initial public offering while ARV (up 22.1%) benefited following the announcement of an acquisition along with releasing their financial result for the year ended March. PFI fell 2.9% on no specific news. The largest detractors from relative performance were underweight positions in Vital Healthcare (VHP) and Kiwi Income Property (KPG) and an overweight position in Argosy Property (ARG) which were returned 11.3%, 6.0% and -1.9% respectively. Despite announcing a \$160m equity raising, VHP was a strong performer while KPG benefited from a strong revaluation.

Key portfolio changes over the quarter included adding to the Fund's positions in STR, ARG, Ingenia Communities (INA) and Summerset (SUM) while reducing weights in Precinct Properties (PCT), 360 Capital Industrial Fund (TIX), KPG and Goodman Property Trust (GMT).

Seven of the Fund's holdings reported results for the year ending March during the quarter. 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 expiries. Falling capitalisation rates continue to be the driver of valuation increases rather than rental growth which is anemic - 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.

In June VHP announced a \$160 million equity raising to fund its development pipeline while STR announced that it intends to split out its large format retail properties into a new vehicle called Investore which will raise equity to purchase additional properties. INA was another holding that raised equity over the quarter - raising \$60 million to acquire four new lifestyle parks.

Other announcements made over the quarter included KPG announcing that it has agreed to acquire 50% of The Base shopping centre in Hamilton from Tainui Group Holdings for \$192.5m. TIX announced its portfolio revaluation which shows a \$33.4m (3.8%) increase since 31 December 2015 along with reaffirming its distribution guidance for FY17 of 21.6cps which equates to a yield of ~8%.

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

### Compliance

The Fund complied with its investment mandate during the month.