

# Nikko AM Wholesale Property Fund

## Fund manager

Nikko Asset Management New Zealand Limited (Nikko AM NZ).

In New Zealand we actively manages around 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 NZ 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 Portfolio Investment Entity (PIE) which is priced daily. Investors 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 IR and investors on an annual basis.

## Distributions

Generally on calendar quarters or at any date for any period determined 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	2.74%	2.41%	0.33%
3 months	4.74%	3.54%	1.20%
6 months	12.01%	10.54%	1.47%
1 year	17.47%	16.64%	0.82%
2 years	19.46%	19.57%	-0.12%
3 years	16.82%	16.16%	0.66%

### Fund size

NZ\$37 million

### Attribution

What helped	What hurt
Precinct Property UW	Kiwi Property Group UW
Investore Property OW	Argosy Property UW
Summerset Group OW	Ingenia OW

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

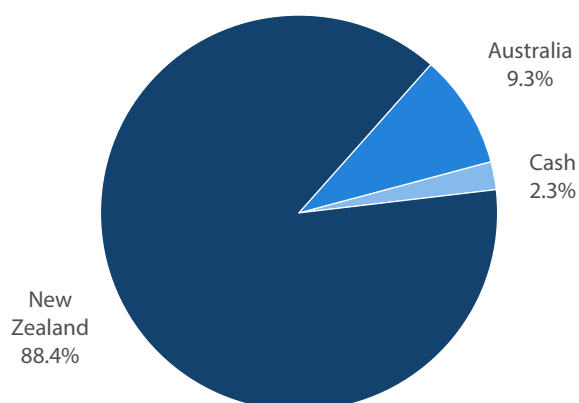
### Top 5 holdings

Argosy Property	Goodman Property Trust
Kiwi Property Group	Precinct Properties
Stride Stapled	
<b>Number of holdings in fund</b>	<b>19</b>

### Hedging

Australian listed stocks are 97.8% hedged to NZD

### Asset allocation



### Compliance

The Fund complied with its investment mandate during the month.

### Commentary

Global equity markets were volatile following the Brexit referendum but bounced back quickly afterward. The rebound came as investors viewed additional monetary policy globally would support risk assets in general and equity markets more specifically and by a stronger than expected US reporting season. The rally in equities went hand-in-hand with a significant move lower in bond yields as the NZ 10-year Government bond yield finished the month on its lows at 2.20%, down some 0.15% over the month, driven by the RBNZ signaling a likely OCR cut in August.

Both the NZ Property index and Australian Property indices rallied over the month circa 2.4%.

The Fund had a relatively strong end to the month and ended the period up 2.74%, 0.33% ahead of the benchmark. The largest positive contributors to relative return was an underweight position in Precinct Properties (PCT) and overweight positions in Investore Property (IPL), Summerset Group (SUM) and Mirvac Group (MGR). PCT underperformed the index while IPL had a strong performance following initial public offering. SUM rose 8.2% after announcing good operating update while MGR rose 8.9% as the market prices in the expectation of a good result to announced in August. The largest detractors from relative performance was an underweight position in Kiwi Property Group (KPG) and overweight positions in Argosy Property (ARG). Ingenia and Metlifecare (MET) also detracted value. There was no specific news on these securities.

Key portfolio changes over the month included mildly reducing the overweight in Stride Stapled Group and adding to positions in PCT and Goodman Property Trust (GMT). As a result of the inclusion of IPL into the index all other index constituent weights were reduced leading to the Fund's underweight positions being slightly reduced.

During the month PCT announced its unaudited property portfolio revaluation for the year ended 30 June. The portfolio grew in value by 5.0% (\$81m) with Auckland properties up 8.6% while the Wellington properties declined in value by 2.3%. Also during the month IPL, which was demerged from Stride Property (now Stride Stapled Group following its capital restructure) along with additional capital raised, started trading. Vital Healthcare also completed its rights issue which raised \$160 million that will be used to fund its development pipeline. SUM performed well after announcing strong second quarter new sales and resales numbers - the highest in the company's history. GMT continues to sell non-core properties, announcing the conditional sale of three Auckland properties for \$206 million.

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