

# Nikko AM Wholesale Property Fund

## Fund manager

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

In New Zealand we actively manage 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	1.37%	1.29%	0.08%
3 months	4.03%	2.38%	1.65%
6 months	13.66%	12.08%	1.57%
1 year	22.47%	21.09%	1.37%
2 years	18.76%	18.68%	0.08%
3 years	16.88%	16.26%	0.63%

### Fund size

NZ\$37 million

### Attribution

What helped	What hurt
Summerset	OW Precinct Properties UW
Metlifecare	OW Property for Industry UW
Kiwi Property Group	UW CDL Investments UW

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

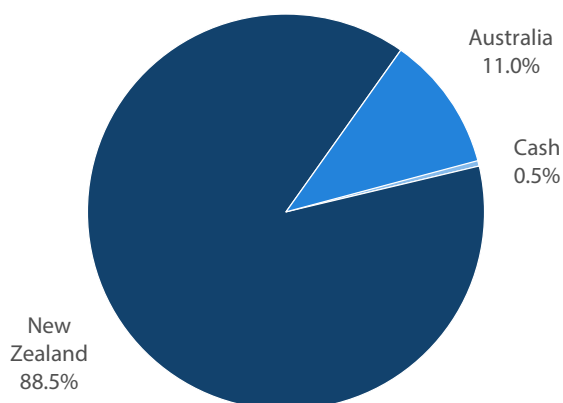
### Top 5 holdings

Argosy Property	Goodman Property Trust
Kiwi Property Group	Precinct Properties
Stride Stapled	
<b>Number of holdings in fund</b>	<b>21</b>

### Hedging

Australian listed stocks are 83.8% hedged to NZD

### Asset allocation



### Compliance

The Fund complied with its investment mandate during the month.

### Commentary

Global equity markets were flat over the month with the MSCI World index up 0.2%. Looking forward, it is becoming more likely we will see an interest rate increase from the US Federal Reserve with the futures implying a 60% probability of an increase by year end. The New Zealand listed property sector had a positive month, up 1.3% and ahead of the broader market with the NZX 50 index up 0.7%. After posting positive returns for eight months in a row the Australian property sector (S&P/ASX 200 Real Estate Index) gave up some ground in August falling 2.4%. This was below the broader market with the S&P/ASX 200 Index down 1.6%.

The Fund had a relatively good month ending the period up 1.37%, 0.08% ahead of benchmark. The retirement stocks had a strong month with the largest positive contributors to relative return coming from out of benchmark positions in **Summerset Group** (SUM) and **Metlifecare** (MET) while an underweight position in **Kiwi Property Group** (KPG) also helped. SUM and MET both announced strong results with the stocks up 16.6% and 8.2% respectively. After a good run in recent months KPG fell 0.6% in August. The largest detractors from relative performance were underweight positions in **Precinct Properties** (PCT), **Property for Industry** (PFI) and **CDL Investments** (CDI). PCT, PFI and CDI all reported results during the period which saw returns of 3.2%, 3.5% and 16.4% respectively.

Key portfolio changes over the month included acquiring positions in **PropertyLink Group** (PLG) and **Arvida Group** (ARV) with only minor changes in other names.

New Zealand holdings PCT, **Vital Healthcare** (VHP), MET, PFI and SUM all reported either full year or half year results during the period. Portfolio metrics for the landlords remain strong with low vacancy and gearing along with relatively long weighted average lease terms. The retirement operators continue to benefit from the strong New Zealand housing market which enables them to realise good gains on resales along with growing demand for their units due to the aging population.

All of the portfolio's Australian holdings reported results during the period with **Mirvac Group** (MGR) being the pick of the bunch with a result at the top of their guidance and forecast for earnings growth to be 8-11% in the coming year – well ahead of what the market had forecast.

Results across New Zealand and Australia continue the trend of recent years with capitalisation rates compressing. Along with their financial result, PCT also announced updates on several projects which included more preleasing at their downtown Auckland office project as well as leasing to the Crown in Wellington and associated refurbishment and development work. KPG was another that provided an update on a project with an anchor tenant having been secured for an \$80 million office tower to be developed at Sylvia Park Shopping Centre.

(**Bold** denotes stock held in portfolio.)