

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 Prescribed Investor 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	-1.69%	-1.38%	-0.31%
3 months	2.38%	2.29%	0.09%
6 months	5.78%	5.05%	0.73%
1 year	22.10%	21.22%	0.89%
2 years	18.90%	18.90%	-0.01%
3 years	17.05%	16.97%	0.08%

Fund size

NZ\$36 million

Attribution

What helped	What hurt
Summerset Group	OW Property Link Group
Metlifecare	OW Argosy property
Investore Property	OW Precinct Properties

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

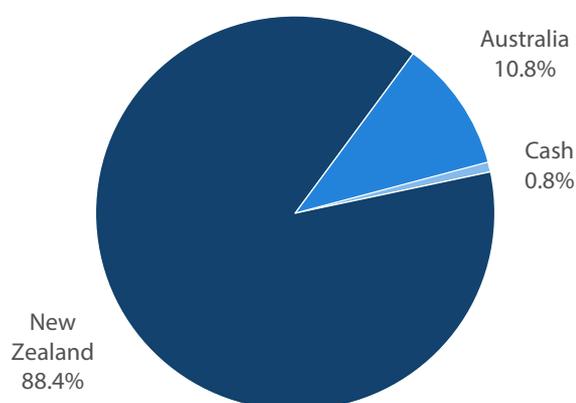
Top 5 holdings

Argosy Property	Goodman Property Trust
Kiwi Property Group	Precinct Properties
Stride Stapled	
Number of holdings in fund	22

Hedging

Australian listed stocks are 94% hedged to NZD

Asset allocation



Compliance

The Fund complied with its investment mandate during the month.

Commentary

Global markets were volatile towards the end of the quarter with the US Federal Reserve getting closer to raising interest rates, the US election approaching and geo-political events such as North Korea conducting another nuclear test and the cease fire in Syria failing. Despite the volatility, all major markets produced good returns for the quarter with the MSCI World index up 5%. The NZ Property sector was well behind the broader market with the S&P/NZX 50 index up 7.3% for the quarter. The Australian property sector also underperformed, down 1.1% as measured by the S&P/ASX 300 Real Estate index which compares to a 5.1% return for the S&P/ASX 200 index.

The Fund ended the quarter down 1.69%, 0.31% behind the benchmark. The retirement stocks had a strong quarter with the largest positive contributors to relative return coming from out of benchmark positions in **Summerset Group** (SUM) and **Metlifecare** (MET) while an overweight position in new listing **Investore Property** (IPL) also helped. SUM and MET both announced strong results with the stocks up 21.6% and 13.7% respectively. IPL ended the period up 6.0% following its listing in July. The largest detractors from relative performance was a position in new Australian listing **Propertylink Group** (PLG), overweight **Argosy Property** (ARG) and underweight **Precinct Properties** (PCT). Despite no new information, PLG fell 18.5% (in AUD) from its listing price while ARG lost 0.5% and PCT rose 5.9%.

Key portfolio changes over the quarter included adding **Arvida Group** (ARV), IPL and PLG while divesting of **Growthpoint Properties** (GOZ). Other changes included reducing the overweight in **Stride Property** (SPG) and adding to **Vital Healthcare** (VHP).

New Zealand holdings PCT, 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. MGR ended the period up 10.9% (in AUD). Earlier in the quarter 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 which will be used to fund its development pipeline. ARV also announced a \$42m capital raising late in the quarter to fund the acquisition of three retirement villages. Most of the property securities continue to recycle capital, selling non-core assets to acquire or develop new properties.

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