

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

Our base position is to fully hedge to NZD any foreign currency exposures created as a consequence of capital markets investment. Currency hedging is at the discretion of the Manager and maybe unhedged or partially hedged from time to time - within 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	-4.67%	-4.38%	-0.29%
3 months	-5.00%	-4.49%	-0.51%
6 months	-0.50%	-1.11%	0.62%
1 year	10.69%	10.15%	0.53%
2 years	13.93%	14.14%	-0.21%
3 years	15.19%	15.43%	-0.23%
5 years	14.77%	14.37%	0.40%

Fund size

NZ\$34 million

Attribution

What helped	What hurt
Vital Healthcare	UW Summerset Group OW
Property Link Group	OW Argosy property OW
Ingenia Communities	OW Kiwi Property Group UW

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

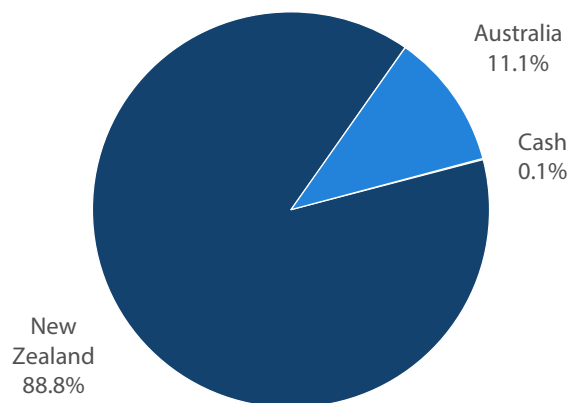
Top 5 holdings

Argosy Property	Goodman Property Trust
Kiwi Property Group	Precinct Properties
Stride Stapled	
Number of holdings in fund	20

Hedging

Australian listed stocks are 94% hedged to NZD

Asset allocation



Compliance

The Fund complied with its investment mandate during the month.

Commentary

Global equity markets were mixed in October with Asian and European markets generally up while the US and Australasian markets were down. The MSCI World Index 100% hedged to NZD ended the month down 0.5%. With the US election, the prospect of the US Federal Reserve raising rates before the end of the year and offshore selling, the NZ Property sector was down 4.4%. Despite this significant fall, the property sector outperformed the broader market with the S&P/NZX 50 index down 5.4%. The Australian property sector also performed poorly, down 7.7% as measured by the S&P/ASX 300 Real Estate index which compares to a 2.2% fall for the S&P/ASX 200 index.

The Fund ended the month down 4.7%, 0.3% below the benchmark. Following last quarters strong performance, the retirement sector had a weak month with **Summerset Group** (SUM) down 10.2%, **Metlifecare** (MET) down 7.5% and **Arvida Group** (ARV) down 5.0%. The largest positive contributors to relative return was an underweight position in **Vital Healthcare** (VHP), and overweight positions in **Propertylink Group** (PLG) and **Ingenia Communities** (INA). VHP was down 8.9% while INA fell 3.2% (in AUD) on no specific news while PLG rose 0.7% (in AUD) following announcing leasing success. The largest detractors to relative performance were overweights in SUM and **Argosy** (ARG) and an underweight in **Kiwi Property Group** (KPG). Despite announcing earnings guidance ahead of market expectations, SUM fell 10.2%. ARG dropped 6.3% while KPG lost 2.3%, both with no material news flow.

There were no material changes to the portfolio over the month.

With eight of the Fund's holdings due to report half year results in November, October was light on news flow. **Augusta** (AUG) announced a proposal which would see them buy the management contract for **NPT** (NPT) and then working with NPT to grow its property portfolio. The proposal will be put to shareholders at a special shareholder meeting. SUM provided strong third quarter sales number, the highest ever achieved along with earnings guidance which was more than 6% ahead of market consensus and 40% - 46% ahead of last year's underlying profit. Despite these strong numbers, SUM was off 10.2% over the month possibly on the back of negative sentiment around the housing market. **Mirvac Group** (MGR) provided an update following its first quarter where they reiterated their earnings and distribution guidance which are backed by earnings growth of 8 - 11% in FY17.