

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	-0.69%	-0.93%	0.24%
3 months	-6.93%	-6.58%	-0.35%
6 months	-3.18%	-4.36%	1.18%
1 year	7.57%	6.43%	1.14%
2 years	12.38%	12.30%	0.08%
3 years	14.53%	14.69%	-0.16%
5 years	14.19%	14.69%	-0.50%

Fund size

NZ\$34 million

Attribution

What helped	What hurt
Precinct Properties	UW Investore Property
Summerset Holdings	OW Vital Healthcare
Argosy Property	OW Kiwi Property Group

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

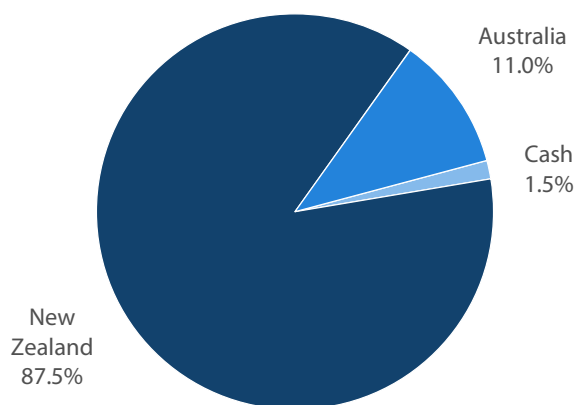
Top 5 holdings

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

Hedging

Australian listed stocks are 101.7% hedged to NZD

Asset allocation



Compliance

The Fund complied with its investment mandate during the month.

Commentary

All eyes were on the United States election early in the month which produced a surprise (relative to polls) victory for Donald Trump. Equity markets initially treated the result quite negatively before trading higher on the back of what was viewed as a more moderate / inclusive speech from President Elect Trump. The MSCI World Index ended the month up 2.1%. The bond markets did not fare so well, with the likes of the US 10-year rate rising 56 basis points over the month. The New Zealand equity market, with a yield focus was impacted by the bond sell off and ended the month down 0.8% as measured by the S&P/NZX 50 Index with the Property Index roughly in line, down 0.9%. The Australian market performed more in line with global markets, up 3.0% based on the S&P/ASX 200 Index while the S&P/ASX 300 Real Estate Index rose 0.8%.

The Fund ended the month down 0.69%, 0.24% ahead of the benchmark. A number of the listed property companies had buildings in Wellington affected by the large 7.8 magnitude earthquake that occurred in the middle of November but nothing appears to be material on a portfolio basis. The largest positive contributors to relative return were an underweight position in **Precinct Properties** (PCT) and overweight positions in **Summerset Group** (SUM) and **Argosy Property** (ARG). PCT lost 2.8% on no specific news although it does have a number of buildings in Wellington. SUM recovered some of last month's negative return, up 2.1% while ARG ended the month flat following its half year result which provided no real surprises. The largest detractors to relative performance were an overweight position in **Investore Property** (IPL) and underweight positions in **Vital Healthcare** (VHP) and **Kiwi Property Group** (KPG).

Only small changes were made to positions during the month with reductions in SUM and Goodman Property Trust while PCT and KPG were added to.

Eight of the portfolio's holdings reported half year results for the period ended 30 September during November. There were no real surprises in any of the results with dividends reiterated for the current year and ARG the only one to talk about next year where they expect to modestly increase it. Key portfolio metrics are solid across the securities with good occupancy, gearing within target ranges or lower and reasonably long weighted average lease terms.