

# 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 NZ domiciled 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	-0.94%	-1.01%	0.07%
3 months	-6.22%	-6.23%	0.01%
6 months	-3.98%	-4.08%	0.10%
1 year	4.26%	3.83%	0.43%
2 years	9.99%	9.61%	0.39%
3 years	14.49%	14.63%	-0.14%
5 years	14.22%	14.63%	-0.41%

### Fund size

NZ\$34 million

### Attribution

What helped	What hurt		
Property Link	OW	Stride Property	OW
Arvida Group	OW	MetlifeCare	OW
Vital healthcare	UW	Property for Industry	UW

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

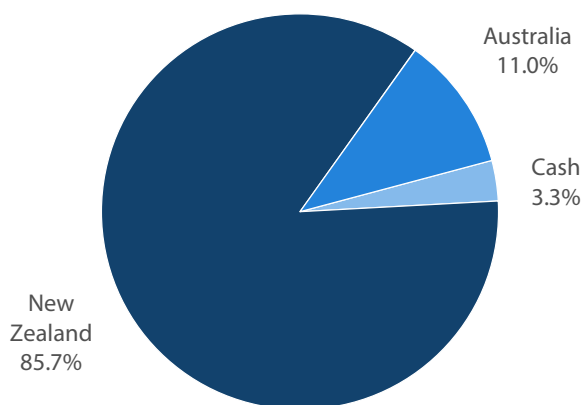
### Top 5 holdings

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

### Hedging

Australian listed stocks are 97.3% hedged to NZD

### Asset allocation



### Commentary

There were a number of significant events driving markets over the quarter including the against the odds US election victory by Donald Trump and the US Federal Reserve raising the Federal Funds Target Rate. Bond Yields were the big mover over the quarter with the US 10-year yield up 85 basis points and the New Zealand 10-year up close to 110 basis points. The bond market sell off had a significant impact on the high yielding New Zealand equity market which ended the quarter down 6.4% as measured by the S&P/NZX 50 index. The property sector ended the quarter down a similar amount to the broader market, closing 6.2% lower.

The Australian market significantly outperformed the New Zealand market with the S&P/ASX 200 index up 5.2% while the S&P/ASX 300 Real Estate index fell 0.7% over the quarter.

The Fund ended the quarter down 6.2%, in line with the benchmark return. 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 overweight positions in **Propertylink Group (PLG)**, **Arvida Group (ARV)** and an underweight in **Vital Healthcare (VHP)**. PLG which was up 11.4% (in AUD), recovering some of its poor performance since listing while ARV, up 7.2%, gained following its rights issue last quarter along with benefiting from being included in the S&P/NZX 50 index. VHP fell 8.8% on no specific news although was still a very strong performer over the year. The largest detractors to relative performance were overweight positions in **Stride Property Group (SPG)** and **Metlifecare (MET)** and an underweight position in **Property for Industry (PFI)**. SPG fell 9.1% on nothing specific although the Chief Executive Officer did resign late in December. MET dropped 11.2%, likely impacted by negative sentiment around the housing market while PFI fell 2.2%, outperforming the index following a strong portfolio revaluation.

Key portfolio changes over the quarter included adding to **Precinct Properties (PCT)** and **Property for Industry (PFI)** while positions in **Argosy Properties (ARG)**, **Stride Property Group (SPG)** and **Goodman Property Trust (GMT)** were reduced. The Fund's small holding in Arvida (ARV) was divested.

Eight of the portfolios holdings reported half year results for the period ending 30 September during the quarter. 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. Interest in controlling **NPT (NPT)** emerged during the period with **Augusta (AUG)** announcing a proposal which would see them buy the management contract for NPT and then working with NPT to grow its property portfolio. This was followed by **Kiwi Property Group (KPG)** who also released a proposal which would see them buy the management contract and sell NPT two of their properties. The proposals will be put to shareholders at a special shareholder meeting early in 2017. **Summerset Group (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 12.2% over the quarter 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. (**Bold** denotes stock held in portfolio)

### Compliance

The Fund complied with its investment mandate during the month.