

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	1.70%	2.53%	-0.83%
3 months	0.05%	0.55%	-0.50%
6 months	-4.95%	-3.97%	-0.98%
1 year	6.46%	6.15%	0.31%
2 years	8.66%	8.62%	0.03%
3 years	15.26%	15.76%	-0.50%
5 years	13.83%	15.76%	-1.93%

Fund size

NZ\$33 million

Attribution

What helped	What hurt	
Property for Industry	UW	Stride Property OW
Summerset Group	OW	Ingenia Communities OW
Vital Healthcare	UW	Mirvac Group OW

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

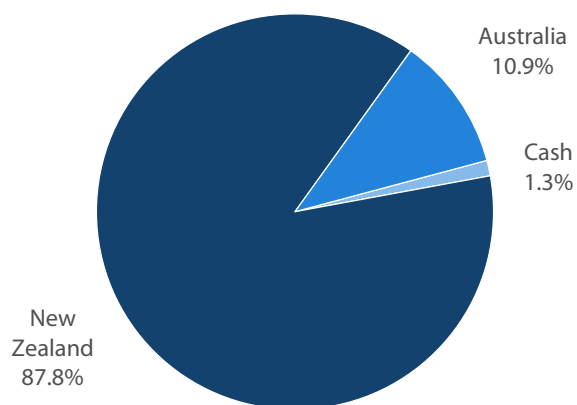
Top 5 holdings

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

Hedging

Australian listed stocks are 101.1% hedged to NZD

Asset allocation



Compliance

The Fund complied with its investment mandate during the month.

Commentary

Equity markets have started the year on a positive note with the MSCI World index up 1.6%. All eyes have been on President Trump following his inauguration on January 20. Early signs are that he will follow through with key pledges with orders signed to withdraw from the Trans Pacific Partnership, immigration bans and plans in motion to commence building a wall between the US and Mexico. The New Zealand property sector performed in line with the broader market, up 2.5% compared to the S&P/NZX 50 index which was also up 2.5%. The Australian property sector had a poor start to the year with the S&P/ASX 300 Real Estate index dropping 4.7% compared to the S&P/ASX 200 index which was down 0.8%

Relative to the fund's benchmark the fund has had a disappointing start to the year, up 1.7% for the month compared to the index return of 2.5%. In line with the divergent performance of the New Zealand and Australian property markets, all of the Australian securities held detracted from relative performance over the month. The largest positive contributors to relative return were underweight positions in **Property for Industry** (PFI) and **Vital Healthcare** (VHP) and an overweight position in **Summerset Group** (SUM). PFI rose 1.3% while VHP rose 1.8% but both were below the index return. SUM added 5.8% on the back of strong fourth quarter sales numbers. The largest detractors to relative performance were overweight positions in **Ingenia Communities** (INA) and **Mirvac Group** (MGR) and an overweight in **Stride Property** (SPG). INA dropped 3.0% while MGR dropped 4.7% with no news driving these returns. SPG was flat over the month.

Key portfolio changes over the month included adding to **Kiwi Property Group** (KPG) and **Argosy Property** (ARG) while positions in PFI and **Industria REIT** were reduced.

There was very little news from the portfolio's holdings during the month. All of the Australian holdings will report half year result for the period end 31 December during February while six of the New Zealand holdings will report results. Following the takeover of the Responsible Entity (Management Company) of 360 Capital Industrial Fund (TIX) by Centuria Capital TIX has changed its name to **Centuria Industrial REIT** (CIP). Both ARG and KPG announced material lease extensions at two properties. ARG extended the lease at the Albany Mitre 10 Mega Store by 8.5 years taking the expiry out to 2032 along with a \$3.1 million capital spend to provide extra retail space. ARG also sold vacant land in Albany for \$11.65 million. KPG secured a new 15 year lease with Farmers at its North City Shopping Centre.

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