

# 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 that 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	0.31%	-0.33%	0.64%
3 months	1.06%	1.16%	-0.10%
6 months	-5.95%	-5.50%	-0.44%
1 year	6.90%	5.92%	0.98%
2 years	8.66%	8.42%	0.24%
3 years	14.65%	14.82%	-0.16%
5 years	13.85%	14.82%	-0.96%

### Fund size

NZ\$33 million

### Attribution

What helped	What hurt
Ingenia Communities	OW Argosy
Property Link	OW Property for Industry
Metlifecare	OW Vital Healthcare

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

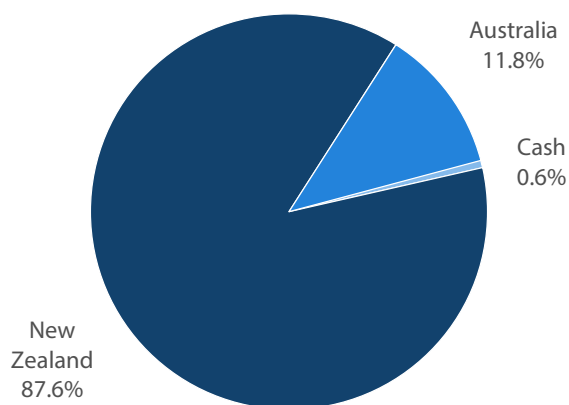
### Top 5 holdings

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% hedged to NZD

### Asset allocation



### Compliance

The Fund complied with its investment mandate during the month.

### Commentary

Equity markets continue their positive start to the year with the MSCI World index up more than 3% in February. Locally, all eyes were on companies reporting results for the period ending December. Property companies in New Zealand reported results in line with expectations while Australian names held in the portfolio were generally better than expected. The retirement sector names in the portfolio reported strong results driven by the housing market and development outlook. Following last month's positive return the New Zealand property sector gave up a little, easing back 0.3% and behind the performance of the S&P/NZX 50 index which was up 1.7%. The Australian Property sector bounced back from a poor January performance with the S&P/ASX 300 Real Estate index rising 4.1% and ahead of the S&P/ASX 200 index which was up 2.3%.

The Fund had a positive month, ending up 0.31% and 0.64% ahead of the index. In contrast to last month, all of the Fund's Australian holdings added value during February. The largest positive contributors to relative return were overweight (out of index) positions in **Ingenia Communities (INA)**, **Propertylink Group (PLG)** and **Metlifecare (MET)**. INA rose 5.8% (in AUD) following a good half year result and increased their forecasts for house sales. PLG rose 6.5% (in AUD) after reporting their maiden half year result since listing in August and reiterated their full year earnings guidance along with a solid asset backing uplift. MET rose 8.2% following their half year result which also saw a strong asset backing uplift driven by the continued strength in the housing market. The largest detractors to relative performance were an overweight position in **Argosy Property (ARG)** and underweight positions in **Property for Industry (PFI)** and **Vital Healthcare (VHP)**. ARG dropped 2.4% over the month on no specific news while PFI rose 1.6% and VHP rose 1.2%. Supporting their performances both PFI and VHP reported solid results during the month.

There were no material changes to portfolio holdings during the month.

It was a busy month for reporting of earnings results for the period ending December. Both retirement names in the portfolio, **Summerset Group (SUM)** and **MET**, reported better than expected results with earnings and asset backing growing strongly. PFI, VHP and **Precinct Properties (PCT)** were the New Zealand listed property names in the portfolio that reported results with key metrics such as gearing, occupancy and weighted average lease terms in good shape. All Australian securities in the Fund reported results during February. As mentioned earlier, INA and PLG had good results as did **Mirvac Group (MGR)** which narrowed its earnings guidance for the full year to the top of its previously provided range. The only slightly negative result came from **Centuria Industrial REIT (CIP)** which, under new management, downgraded earnings guidance based on more conservative assumptions. The stock still managed to end the month up 0.4%.

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