

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	-0.60%	-0.58%	-0.02%
3 months	1.41%	1.60%	-0.19%
6 months	-4.90%	-4.73%	-0.17%
1 year	0.60%	0.08%	0.51%
2 years	8.05%	7.77%	0.29%
3 years	14.48%	14.69%	-0.21%
5 years	12.80%	14.69%	-1.88%

Fund size

NZ\$33 million

Attribution

What helped	What hurt
Metlifecare OW	Argosy Property OW
Summerset Group OW	Property for Industry UW
Mirvac Group OW	Kiwi Property Group UW

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

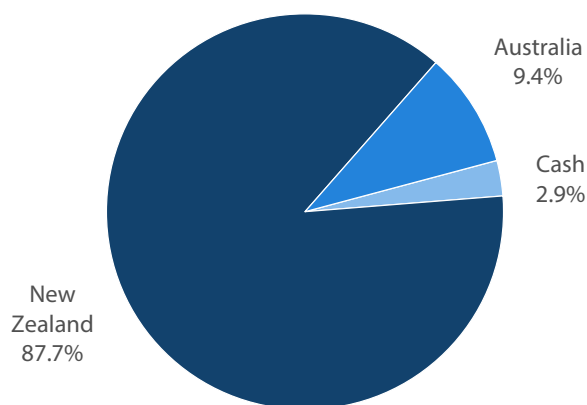
Top 5 holdings

Kiwi Property Group	Goodman Property Trust
Argosy Property Limited	Precinct Properties NZ
Stride Stapled Group	
Number of holdings in Fund	18

Hedging

Australian listed stocks are 96.8% hedged to NZD

Asset allocation



Compliance

The Fund complied with its investment mandate during the month.

Commentary

Equity markets globally performed strongly over the first quarter of the year as they continued to benefit from the 'Trump rally'. Property securities tended to underperform the broader market as investors start to contemplate the prospects of inflation and increasing interest rates and the flow-on impact to capitalisation rates and valuations. The New Zealand property index rose 1.6% over the quarter which was well behind the broader market, up 5.1% as measured by the S&P/NZX 50 index. A similar result came out of the Australian property sector with the S&P/ASX 300 Real Estate index falling 0.1% compared to the S&P/ASX 200 index which was up 4.8%.

Despite generally strong performances from out of index holdings, the fund wasn't quite able to match the index return as key index relative positions went against us. The fund ended the quarter up 1.41%, 0.19% behind the index return. The largest positive contributors to relative return were overweight (out of index) positions in **Metlifecare** (MET), **Summerset Group** (SUM) and **Mirvac Group** (MGR). MET and SUM both delivered strong earnings results in the quarter and rose 10.9% and 11.5% respectively. MGR also performed well following a positive half year result, adding 2.8% (in AUD). The largest detractors to relative performance was an overweight position in **Argosy Property** (ARG) and underweight positions in **Property for Industry** (PFI) and **Kiwi Property Group** (KPG). A drop late in the quarter on no specific news saw ARG finish down 2.0% while PFI and KPG rose 3.8% and 2.9% respectively. PFI benefited from a solid earnings result and portfolio revaluation while KPG received endorsement from the NPT Board for its proposal to acquire the NPT Management contract while vending in two properties and acquiring a 19.9% holding.

Key portfolio changes during the quarter included the divestment of **GDI Property** (GDI) and **MGR** following good price movements. Other changes included adding to **Goodman Property Trust** (GMT) and **KPG** and trading around the edges in ARG.

The quarter saw a number of the fund's holdings report earnings results for the period ending December. Both retirement names in the portfolio, SUM and MET, reported better than expected results with earnings and asset backing growing strongly. PFI, **Vital Healthcare** (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. **Ingenia Communities** (INA) and **Propertylink Group** (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) (formerly 360 Capital Industrial Fund) which, under new management, downgraded earnings guidance based on more conservative assumptions. Other news included GMT releasing its preliminary portfolio revaluation as at end of March which showed an approximate uplift of 5%.

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