

# 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	1.06%	1.52%	-0.46%
3 months	1.65%	2.25%	-0.60%
6 months	2.73%	3.43%	-0.70%
1 year	-0.54%	-1.08%	0.54%
2 years	9.48%	9.51%	-0.04%
3 years	12.39%	12.63%	-0.24%
5 years	13.01%	12.63%	0.38%

### Fund size

NZ\$35 million

### Attribution

What helped		What hurt	
Property Link	OW	Metlifecare Ltd	OW
Centuria Industrial Fund	OW	Ingenia Communities	OW
Property for Industry	UW	Summerset Group	OW

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

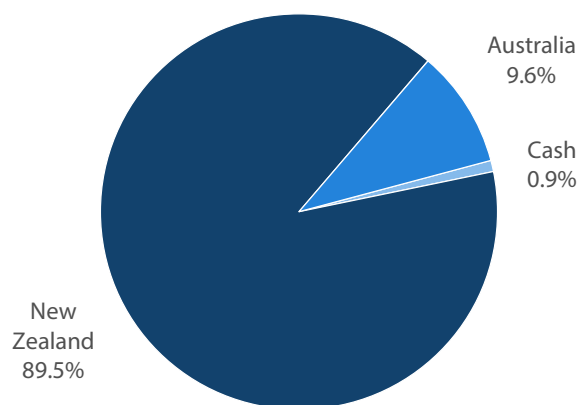
### Top 5 holdings

Kiwi Property Group	Goodman Property Trust
Argosy Property Limited	Precinct Properties NZ
Stride Stapled Group	
<b>Number of holdings in Fund</b>	<b>17</b>

### Hedging

Australian listed stocks are 97.7% hedged to NZD

### Asset allocation



### Compliance

The Fund complied with its investment mandate during the month.

### Commentary

Global markets continued to move higher with the MSCI World index up 1.7% and US markets reaching all-time highs with the S&P 500 index up 1.2%. The Australian market was impacted by levies on the banks announced in the Budget which saw the S&P/ASX 200 Financials sector down 9.2%. The New Zealand Property index rose 1.5% over the month, ahead of the broader market which was up 0.6% as measured by the S&P/NZX 50 index. The Australian property sector fell 1.0% but was ahead of the S&P/ASX 200 index which fell 2.75% with the financial sector having a large impact.

The fund ended the month up 1.06%, 0.46% behind the index with the retirement sector holdings the key reason for the underperformance. The largest positive contributors to relative return were overweight (out of index) positions **Propertylink Group** (PLG) and **Centuria Industrial Fund** (CIP) and an underweight position in **Property for Industry** (PFI). PLG and CIP rose 6.3% and 4.9% respectively (in AUD) on no specific news while PFI rose 0.5%. The largest detractors to relative performance were out of index (overweight) positions in **Metlifecare** (MET), **Summerset Group** (SUM) and **Ingenia Communities** (INA). MET and SUM fell 5.5% and 6.2% respectively on concerns of a slowing housing market while INA fell 1.4% (in AUD) following a \$74 million capital raising to fund new acquisitions.

The key portfolio changes during the month were increasing holdings in KPG, **Goodman Property Trust** (GMT) and INA. INA's position was increased as we took part in the capital raising.

A number of the New Zealand property securities reported earnings results during the month. There were no real surprises in the results. The trend of strong portfolio metrics continue with little vacancy, gearing towards the bottom end of target ranges and low cost of debt. Meaningful distribution growth remains elusive with forecasts for flat-to-small increases to distributions for the year ahead. Capitalisation rate compression was approximately 25bps on average over last year. The Industrial sector performed strongly with some very tight cap rates in the sector. We are probably near the end of the capitalisation rate compression cycle with the expectation that they will remain relatively unchanged over the next twelve months. Both GMT and SUM announced \$100m bond issues during the month, diversifying their funding sources. On completion of GMT's bond offer it will have more than 70% of its debt funding from non-bank sources.

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