

# 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.

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## 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.

### Performance (NZD gross returns)

	Fund	Benchmark	Excess
1 month	-0.66%	-0.59%	-0.07%
3 months	1.63%	2.48%	-0.85%
6 months	2.54%	2.87%	-0.33%
1 year	-2.54%	-1.21%	-1.33%
2 years	7.00%	7.35%	-0.35%
3 years	11.62%	12.20%	-0.58%
5 years	12.16%	12.20%	-0.04%

### Fund size

NZ\$33.6 million

### Attribution

What helped	What hurt
Metlifecare OW	Stride Property Group OW
Kiwi Property Group UW	Precinct Properties UW
Summerset Group OW	Property for Industry UW

OW: overweight; UW: underweight; NP: neutral position; NH: no holding. Attribution based on security selection only, does not include currency affect.

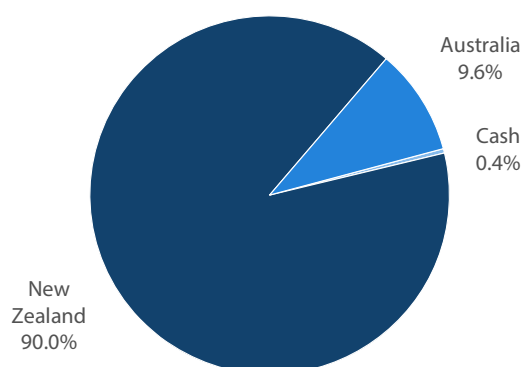
### Top 5 holdings

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

### Hedging

Australian listed stocks are 99.0% hedged to NZD

### Asset allocation



### Compliance

The Fund complied with its investment mandate during the month.

### Commentary

The New Zealand Property index fell 0.6%, underperforming the broader market which was up 1.1% as measured by the S&P/NZX 50 index. The Australian property sector fell 0.2% compared to the S&P/ASX 200 index which was flat for the month.

The fund performed marginally behind the benchmark, down 0.66% for the month compared to the benchmark down 0.59%. The largest positive contributors to relative return were out of index (overweight) positions in **Metlifecare** (MET) and **Summerset Group** (SUM) and an underweight position in **Kiwi Property Group** (KPG). MET and SUM bounced back from weak performance over the last couple of months adding 4.1% and 2.1% respectively. KPG continues to be impacted by its \$161 million capital raising in June and fell 2.8%. The largest detractors to relative performance were an overweight position in **Stride Property Group** (SPG) and underweight positions in **Precinct Properties** (PCT) and **Property for Industry** (PFI). SPG fell 4.6% on no specific news although a broker did release a report highlighting their concerns around potential impacts from an Amazon launch on SPG's (and others) retail properties. PCT rose 2.4% while PFI was up 0.3%.

Key portfolio changes over the month included adding to KPG, **Goodman Property Trust** (GMT) and SPG while reducing the funds cash holding.

There was not much in the way of news flow during the month ahead of a number of the Fund's holdings reporting earnings results for the period ending June next month. PCT did release their preliminary portfolio revaluation which saw the valuation rise 4.5% or \$89m over the year. KPG announced that their CEO will step down in September 2018 giving the company over a year to appoint a successor and have a good hand-over period. SUM announced their first half sales of new units and resale of existing units. They are on track to deliver approximately 450 new retirement units over the year. Despite some in the market being concerned around the impact of the property market, new sales and resales continue to track well with homes coming available selling quickly.

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