

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 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	1.35%	0.52%	0.83%
3 months	1.92%	1.47%	0.45%
6 months	3.60%	3.74%	-0.14%
1 year	-2.56%	-1.96%	-0.60%
2 years	9.24%	8.96%	0.28%
3 years	11.18%	11.36%	-0.17%
5 years	12.31%	12.03%	0.27%

Fund size

NZ\$34 million

Attribution

What helped	What hurt
Metlifecare OW	Goodman Property Tst UW
Summerset Group OW	Precinct Properties UW
Kiwi Property Group UW	Investore Property Ltd OW

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

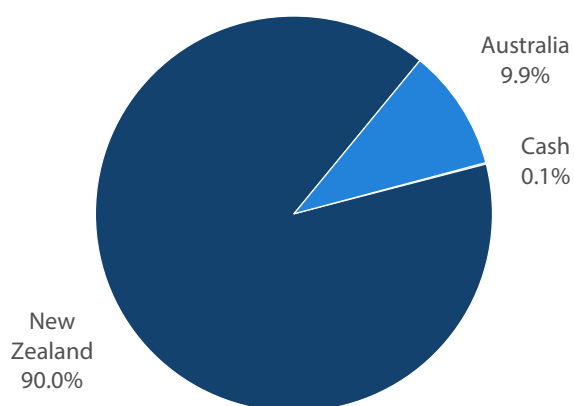
Top 5 holdings

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

Hedging

Australian listed stocks are 96.5% hedged to NZD

Asset allocation



Compliance

The Fund complied with its investment mandate during the month.

Commentary

August saw a number of events moving markets in different ways with reporting season stock specific, geo-political events such as a North Korean missile launch resulting in risk-off and Hurricane Harvey more localised in the US. Closer to home as the election looms, the Labour party has had a dramatic turnaround while the Greens appear to have imploded. The New Zealand Property index rose 0.5%, underperforming the broader market which was up 1.7% as measured by the S&P/NZX 50 index. The Australian property sector performed well, up 1.5% and ahead of the S&P/ASX 200 index which was up 0.7% for the month.

The fund produced a solid performance over the month, up 1.35% and 0.83% ahead of the benchmark return of 0.52%. The largest positive contributors to relative return were overweight positions in **Metlifecare (MET)** and **Summerset Group (SUM)** and an underweight position in **Kiwi Property Group (KPG)**. MET and SUM both reported good earnings results and were up 9.1% and 6.4% respectively. KPG fell 1.5% as it continues to digest its \$161m capital raising that was completed last month and from concerns around the impact Amazon might have on NZ retail. The largest detractors to relative performance were underweights in **Goodman Property Trust (GMT)** and **Precinct Properties (PCT)** along with an overweight in **Investore Property (IPL)**. GMT rose 2.0% over the month as it continues to recycle capital, announcing six new industrial developments across its estates totalling \$107 million. PCT, one of three New Zealand property securities to report earnings, rose 1.2%. IPL declined 0.7% on no specific news.

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

New Zealand property securities PCT, Vital Healthcare (VHP) and Property for Industry (PFI) reported results for periods ending 30 June (PFI's was half year). Metrics continue to be strong with little-to-no vacancy, low cost of debt and gearing toward the bottom of target ranges. PCT announced that the retail component of its Commercial Bay development will be opening around five month later than initially planned and also announced a \$150 million convertible note offer to fund its large development pipeline. The two New Zealand retirement holdings, MET and SUM showed no signs of being impacted by a slowing housing market with new and resales stock selling as expected and continued low vacancy. Reported development margins for both were strong. All of the fund's Australian property securities reported full year results during the month. Of note, **Industria REIT (IDR)** rose 8.8% following a material increase in NTA and fellow listed property security, Growthpoint Properties (GOZ), acquiring an 18% stake in IDR. **Propertylink Group (PLG)** reported a good result along with a solid NTA uplift and rose 4.2%.

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