

NIKKO AM PROPERTY STRATEGY

Applies to: Nikko AM Wholesale Property Fund

Market Overview

- Most global equity markets pushed higher over May although tech heavy indices struggled due in part to a continued semiconductor shortage.
- The United States S&P 500 index rose 0.6%, the Japanese Nikkei 225 index fell 0.2%, the UK FTSE 100 index increased 0.8%, the Australian ASX 200 index added 2.3% and the MSCI All Countries World Index ended the month up 1.1% all in local currency.
- The S&P/NZX Real Estate index ended the month flat but outperformed the broader market with the S&P/NZX 50 index down 3.2%. The Australian property index ended the month up 1.8%.

Fund Highlights

- The fund rose 0.5%, 0.5% ahead of the index return.
- A number of the fund's holdings reported earnings results for the period ending March which were generally in line with expectations.
- Property for Industry announced the acquisition of a large industrial property for \$91.7m while Ryman Healthcare announced the surprise resignation of their Chief Executive Officer.
- Underweight positions in Precinct Properties and Kiwi Property and an overweight position in Argosy Property added value.
- Underweight positions in Vital Healthcare, Goodman Property and Property for Industry detracted from value.

Performance

	One month	Three months	One Year	Three years (p.a)	Five years (p.a)	Ten years (p.a)
Wholesale ¹	0.51%	2.50%	25.09%	14.79%	10.94%	13.36%
Benchmark ²	0.02%	1.69%	19.55%	14.12%	10.04%	12.80%

1. Returns are before tax and before the deduction of fees.

2. Benchmark: S&P/NZX All Real Estate Industry Group Gross with Imputation Credits Index. No tax or fees.

Five Year Cumulative Performance, \$10,000 invested^{1, 2}



Portfolio Manager

Michael Sherrock,
Portfolio Manager



Responsible for the Property and NZ Equities Fund. Covers the Property, Energy, Materials and Retirement sectors. Nineteen years of experience within the finance industry including Schroders in the UK and ASB Group Investments in New Zealand. Michael holds a Bachelor of Commerce degree from the University of Auckland and is a CFA charter holder. Joined in 2006.

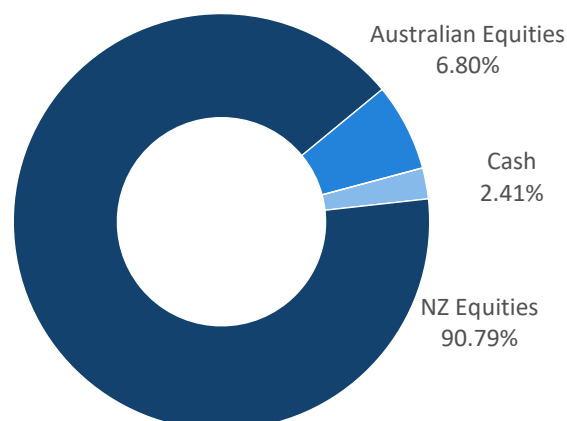
Overview

The Property Strategy provides investors with an exposure to New Zealand listed property securities and, on an opportunistic basis, Australian listed property securities from an actively managed investment portfolio.

Objective

The fund aims to outperform the benchmark return by 1.5% per annum before fees, expenses and taxes over a rolling three-year period.

Asset Allocation



Attribution to Performance (month)				Top 10 holdings (as at month end)			
What Helped		What Hurt					
Precinct Properties NZ	UW	Vital Healthcare	UW	Goodman Property Trust	17.33%	Investore Property Ltd	7.04%
Kiwi Property Ltd	UW	Goodman Property Ltd	UW	Argosy Property Ltd	14.05%	Property For Industry Ltd	6.96%
Argosy Property Ltd	OW	Property For Industry	UW	Kiwi Property Group	13.00%	Vital Healthcare Property	4.78%
OW: overweight; UW: underweight; NH: no holding.				Stride Property Ltd	12.74%	Westpac New Zealand Ltd	2.41%
				Precinct Properties NZ Ltd	10.90%	Summerset Group	2.25%
				Number of holdings			17

Market Commentary

Most global equity markets pushed higher over May although tech heavy indices such as the Nasdaq struggled due in part to a continued semiconductor shortage and a rotation out of technology stocks. The New Zealand market underperformed global markets again in May with the S&P / NZX 50 index down 3.2%, driven by big falls in several large capitalisation stocks, compared to the MSCI World index which was up 1.1%. A number of securities reported results for the period ending March.

Fund Commentary

The fund ended the month up 0.5% and 0.5% ahead of the index which was flat for the month. The largest positive contributors to relative return were underweight positions in **Precinct Properties (PCT)** and **Kiwi Property (KPG)** and an overweight position in **Argosy Property (ARG)**. While PCT was not a holding to report a result, it did make several small announcements around leasing and a development project commencement. PCT fell 3.3% over the month as investors digest working from home impact on office demand as well as PCT's management internalisation cost and flow through to net tangible assets. KPG, down 3.5% over the month, announced their result along with the intention to sell two retail properties which in the short term will create a hole in earnings. ARG rose 3.0%, assisted by a small increase in dividend guidance for the year ahead.

The largest detractors from relative performance were underweight positions in **Vital Healthcare (VHP)**, **Goodman Property (GMT)** and **Property for Industry (PFI)**. VHP rose 2.0% following announcing its third quarter result while GMT rose 1.8% after announcing its full year result which included a large portfolio revaluation gain. PFI, which announced the acquisition of a large industrial property for \$91.7m on a sub 4% capitalisation rate, rose 1.2%. The fund added to its positions in PCT, GMT and PFI.

(**Bold** denotes stocks held in the portfolio)

Key Fund Facts

Distributions	Estimated annual fund charges		
Calendar quarter	Wholesale: negotiated outside of fund		
Hedging	Buy / Sell spread:	Strategy Launch	Strategy size
Foreign currency exposures may be hedged to NZD at the Manager's discretion within an operational range of 0% to 105%. Currently the fund's foreign currency exposure is 98.4% hedged.	0.20% / 0.20%	February 2010	\$42.3m

Compliance

The fund complied with its investment mandate and trust deed during the month.

Contact Us

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