

NIKKO AM PROPERTY STRATEGY

Applies to: Nikko AM Wholesale Property Fund

Market Overview

- Despite long bond yields increasing materially over the quarter, most global equity markets posted positive returns.
- The United States S&P 500 index rose 5.8%, the Japanese Nikkei 225 index gained 6.3%, the UK FTSE 100 index increased 3.9%, the Australian ASX 200 index added 4.3% and the MSCI World index ended the quarter up 5.9%, all in local currency.
- The S&P/NZX Real Estate index lost 4.1% and underperformed the broader market with the S&P/NZX 50 index down 3.9%. The Australian property index ended the quarter down 0.6%.

Fund Highlights

- The fund declined 3.6%, 0.5% ahead of the index return.
- A number of the fund's holdings reported results for the period ending December with result generally in line or ahead of market expectations but were overwhelmed by sentiment relating to the long-bond sell off.
- Precinct Properties announced the internalisation of its management with a \$215m termination payment to the external manager.
- Overweight positions in Centuria Industrial REIT and Ingenia Communities and an underweight position in Vital Healthcare added value. Overweight positions in Waypoint REIT and Argosy Property and an underweight position in Kiwi Property detracted from value.

Performance

	One month	Three months	One Year	Three years (p.a)	Five years (p.a)	Ten years (p.a)
Wholesale ¹	0.69%	-3.58%	34.30%	15.82%	11.29%	13.81%
Benchmark ²	0.49%	-4.08%	26.32%	15.37%	10.65%	13.38%

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.

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.

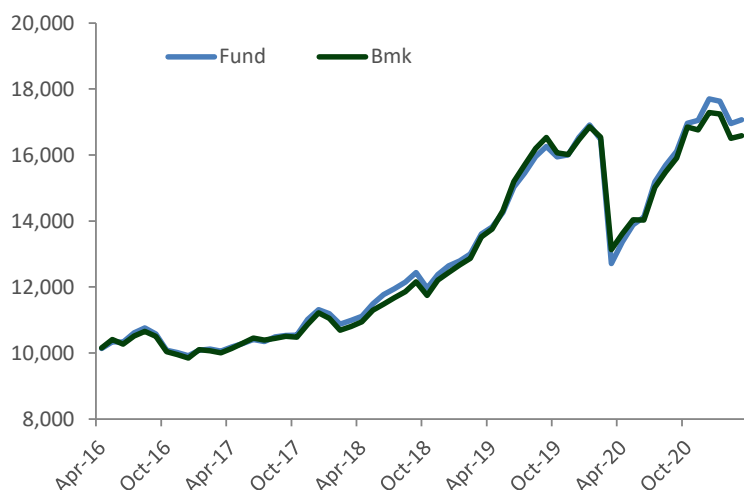
Overview

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.

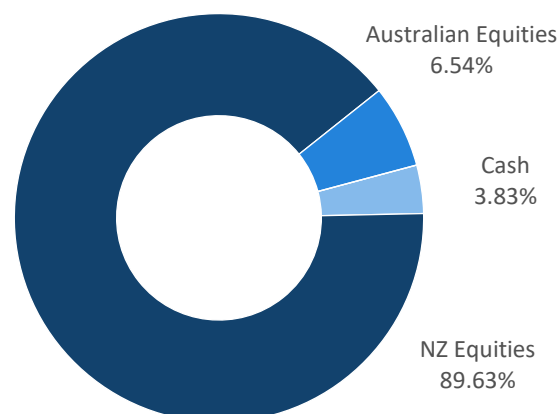
Objective

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

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



Asset Allocation



Attribution to Performance (quarter)				Top 10 holdings				
What Helped		What Hurt		Goodman Property Trust	17.15%	Investore Property Ltd	7.44%	
Vital Healthcare	UW	Kiwi Property Group	UW	Argosy Property Limited	13.75%	Property for Industry	6.76%	
Centuria Industrial REIT	OW	Argosy Property	OW	Kiwi Property Group	13.46%	Vital Healthcare	4.26%	
Ingenia Communities	OW	Waypoint REIT	OW	Stride Stapled Grp NPV	12.82%	Summerset Group	2.29%	
OW: overweight; UW: underweight; NH: no holding.				Precinct Properties NZ Ltd	10.55%	Waypoint REIT	1.86%	
							Number of holdings	16

Market Commentary

While long bonds sold off across the world, New Zealand was particularly impacted. The New Zealand 10-year government bond traded above 2.0% intra-day before closing the quarter at 1.81%, up 82bps on the previous quarter’s close. While a number of companies reported in line or better than expected results for the period ending December, the bond movement dominated. This flowed through to a sell-off in the equity market - in particular yield stocks such as property.

Fund Commentary

The fund ended the quarter down 3.6% and 0.5% ahead of the index which fell 4.1%. The largest positive contributors to relative return were overweight positions in **Centuria Industrial REIT (CIP)** and **Ingenia Communities (INA)** and an underweight position in **Vital Healthcare (VHP)**. CIP rose 8.8% (in AUD) after announcing an 8.1% portfolio revaluation gain. INA added 3.9% (in AUD) on the back of a good half year result and announcing several acquisitions. VHP fell 10.2 % over the quarter as it was hit particularly hard by the bond movements due to its long lease terms.

The largest detractors from relative performance were overweight positions in **Waypoint REIT (WPR)** and **Argosy Property (ARG)** and an underweight position in **Kiwi Property (KPG)**. As with VHP, WPR suffered from its long weighted average lease term, effectively long duration which doesn’t help in a long bond sell off. WPR ended the quarter down 8.1% (in AUD). After a strong run last year, ARG fell 8.7% over the quarter on no specific news. KPG rose 1.6% after announcing improved sales across its retail properties for December compared to the same period last.

The fund added to its positions in **Precinct Property (PCT)** and **KPG**, while small reductions were made to **Asset Plus (APL)**, **INA**, **Stride Property (SPG)** and **Investore Property (IPL)**.

(**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 98.3% hedged.	0.20% / 0.20%	February 2010	\$49.8 m

Compliance

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

Contact Us

www.nikkoam.co.nz | nzenquiries@nikkoam.com

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