

NIKKO AM PROPERTY STRATEGY

Applies to: Nikko AM Wholesale Property Fund

Market Overview

- Most global equity markets pushed higher over the quarter as lockdowns and restrictions were eased and economic data improved, albeit a watchful eye is on new COVID strains such as the Delta strain.
- The United States S&P 500 index rose 8.2%, the Japanese Nikkei 225 index fell 1.3%, the UK FTSE 100 index increased 4.8%, the Australian ASX 200 index added 8.3% and the MSCI World index ended the quarter up 7.2%.
- The S&P/NZX Real Estate index ended the quarter up 2.4% and outperformed the broader market with the S&P/NZX 50 index up 0.9%. The Australian property index had a strong run and ended the quarter up 10.7%.

Fund Highlights

- The fund rose 3.6%, 1.2% ahead of the index return over the quarter.
- 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.
- Precinct Properties raised \$250m to fund the acquisition and redevelopment of two Wellington office buildings.
- Overweight positions in Argosy Property and Ingenia Communities and an underweight position in Precinct Properties added value. Overweight positions in Ryman Healthcare and Investore Property, and an underweight position in Vital Healthcare detracted from value.

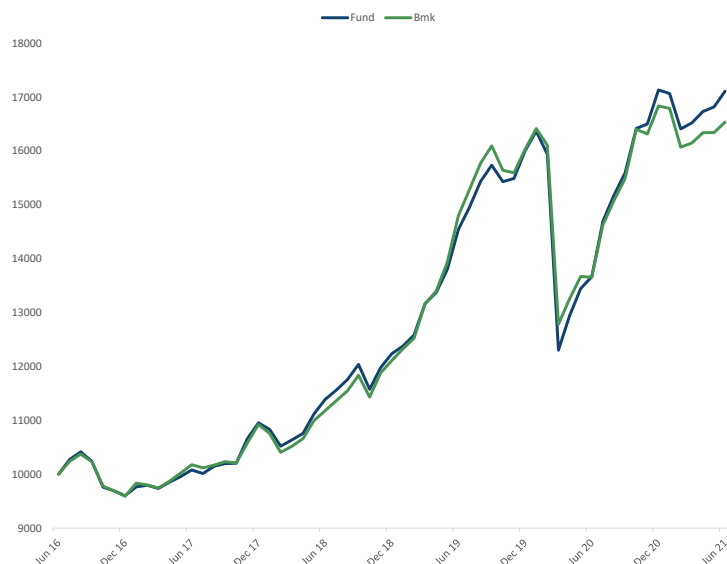
Performance

| | One month | Three months | One Year | Three years (p.a) | Five years (p.a) | Ten years (p.a) |
|------------------------|-----------|--------------|----------|-------------------|------------------|-----------------|
| Wholesale ¹ | 1.74% | 3.56% | 25.20% | 14.54% | 11.34% | 13.43% |
| Benchmark ² | 1.18% | 2.39% | 21.07% | 13.94% | 10.58% | 12.82% |

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.

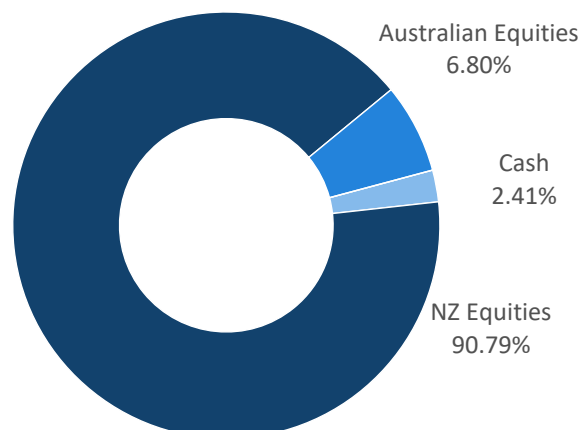
Overview

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 (quarter) | | | | Top 10 holdings (as at quarter end) | | | |
|--|----|------------------------|----|-------------------------------------|--------|---------------------------|-----------|
| What Helped | | What Hurt | | | | | |
| Argosy Property Ltd | OW | Vital Healthcare | UW | Goodman Property Trust | 17.46% | Investore Property Ltd | 6.87% |
| Ingenia Communities | OW | Ryman Healthcare Ltd | OW | Argosy Property Ltd | 14.27% | Property for Industry Ltd | 6.85% |
| Precinct Property NZ | UW | Investore Property Ltd | OW | Precinct Properties NZ Ltd | 13.08% | Vital Healthcare Property | 4.54% |
| OW: overweight; UW: underweight; NH: no holding. | | | | Stride Property Ltd | 12.66% | Summerset Group | 2.38% |
| | | | | Kiwi Property Group | 12.39% | Waypoint Reit | 1.81% |
| | | | | Number of holdings | | | 17 |

Market Commentary

Most global equity markets continued their strong run for the year as lockdowns and restrictions were eased and economic data improved. The New Zealand market continues to be somewhat of an outlier when looking at the year-to-date returns with the S&P/NZX 50 index down 3.1% compared to the US S&P 500 index up 14.4% or the MSCI World index up 13.5%. A watchful eye is on new COVID strains such as the Delta strain that appears to be far more contagious. A number of securities reported results for the period ending March.

Fund Commentary

The fund ended the quarter up 3.6% and 1.2% ahead of the index which was up 2.4%. The largest positive contributors to relative return were overweight positions in **Argosy Property** (ARG) and **Ingenia Communities** (INA), and an underweight position in **Precinct Properties** (PCT). ARG rose 9.9%, assisted by a small increase in dividend guidance for the year ahead along with a recovery from weakness in the prior quarter. INA added 21.3% following the acquisition of several properties being added to a global property index, and also assisted by the strong Australian housing market. PCT fell 0.8% as the market absorbed the \$250m capital raise to buy two Wellington office assets along with PCT's management internalisation cost which reduces net tangible assets.

The largest detractors from relative performance were overweight positions in **Ryman Healthcare** (RYM) and **Investore Property** (IPL) and an underweight position in **Vital Healthcare** (VHP). RYM fell 13.3% following the surprise resignation of its Chief Executive Officer and continued market concerns around its debt level. IPL ended the quarter down 0.9% despite recording a 16% portfolio revaluation uplift for the twelve months ended 31 March. VHP rose 7.3% as it recovered from the prior quarters weakness along with announcing several property acquisitions.

Key portfolio changes during the quarter included adding RYM to the portfolio along with increasing positions in PCT through its capital raise and **Kiwi Property** (KPG) and **Property for Industry** (PFI).

Key Fund Facts

Distributions

Calendar quarter

Estimated annual fund charges

Wholesale: negotiated outside of fund

Hedging

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 89.1% hedged.

Buy / Sell spread:

0.20% / 0.20%

Strategy Launch

February 2010

Strategy size

\$42.9m

Compliance

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

Contact Us

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