

Factsheet 30 September 2022

# NIKKO AM PROPERTY STRATEGY

Applies to: Nikko AM Wholesale Property Fund

## Market Overview

- Global equity markets sold off over the quarter driven by earnings season, continued inflation concerns and bond yield movements.
- Over the quarter the US 10-year bond yield rose 82bps, the New Zealand 10-year yield increased 44bps, the Australian 10-year added 23bps while the UK 10-year jumped 186bps.
- The United States S&P 500 index fell 5.3%, the Japanese Nikkei 225 index declined 1.7%, the UK FTSE 100 index lost 3.8%, the Australian ASX 200 index rose 0.4% and the MSCI World index ended the quarter down 4.9%.
- The S&P/NZX Real Estate index ended the quarter down 1.8% and behind the broader market with the S&P/NZX 50 index gaining 2.2%. The Australian property index fell 6.9%.

## Fund Highlights

- Over the quarter the fund fell 2.0%, 0.14% behind the benchmark return.
- A number of the fund's holdings reported results for the period ending June.
- Overweight positions in Waypoint REIT and Stride Property and an underweight position in Vital Healthcare added value.
- Underweight positions in Property for Industry and Goodman Property and an overweight in Dexus Industria REIT detracted from value.

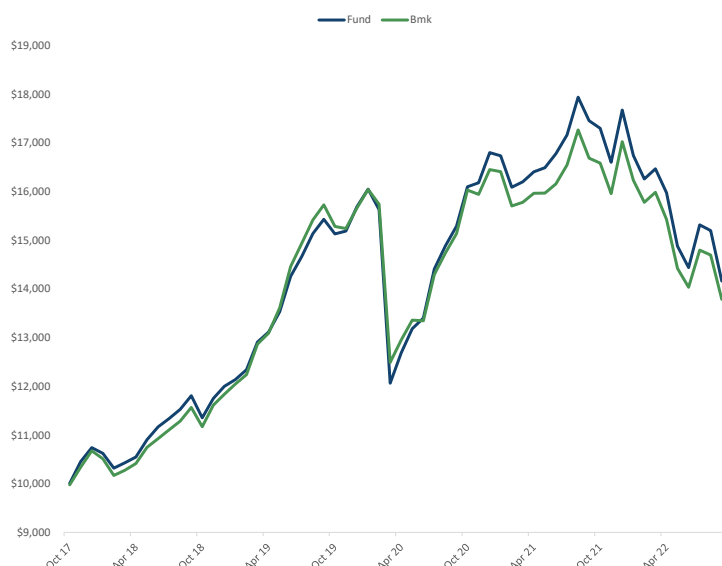
## Performance

	One month	Three months	One Year	Three years (p.a)	Five years (p.a)	Ten years (p.a)
Wholesale <sup>1</sup>	-6.82%	-1.91%	-18.87%	-2.82%	7.21%	9.55%
Benchmark <sup>2</sup>	-6.19%	-1.77%	-17.39%	-4.30%	6.63%	9.16%

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<sup>1, 2</sup>



## Portfolio Manager

**Michael Sherrock,**  
**Portfolio Manager**



Responsible for the Property and NZ Equities Fund. Covers the Property, Energy, Materials sectors. Experienced 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.

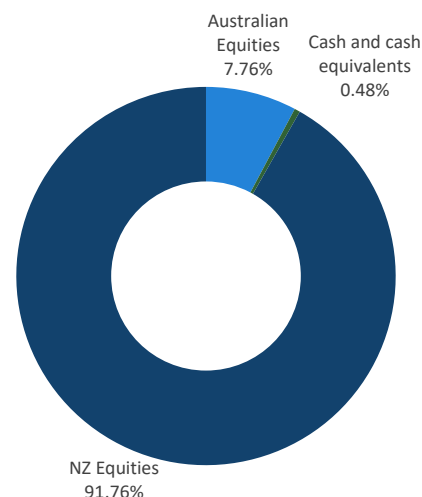
## Overview

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 (% of fund)			
What Helped		What Hurt					
Waypoint REIT	OW	Dexus Industria	OW	Goodman Property Trust	17.96%	Vital Healthcare Property	8.68%
Stride Property	OW	Property for Industry	UW	Precinct Properties	13.65%	Property For Industry Ltd	7.69%
Vital Healthcare Property	UW	Goodman Property	UW	Kiwi Property Group	12.35%	Investore Property Ltd	6.62%
OW: overweight; UW: underweight; NH: no holding.				Argosy Property Limited	12.10%	Waypoint REIT	2.01%
				Stride Stapled Grp	10.92%	Ingenia Communities	1.50%
				<b>Number of holdings</b>			<b>17</b>

## Market Commentary

Global equity markets sold off over the quarter driven by earnings season, continued inflation concerns and bond yield movements. While company earnings results were generally as expected, labour availability, increasing wages and rising interest rates are the key issues that companies are having to manage. Central banks continue their battle against inflation with aggressive cash rate hikes. Both the Reserve Bank of Australia and the US Federal Reserve increased cash rates by 150 basis points while the Reserve Bank of New Zealand and the Bank of England increased their official cash rates by 100 basis points. Bond yields continue to be volatile with 10-year government bond yields for New Zealand, Australia, the United Kingdom and the United States up 44bps, 23bps, 186bps and 82bps respectively. Interest rate hedging was a focus for investors when looking at property results as lower hedging meant the higher interest rates had a larger impact on earnings. We saw a number of property companies in Australia forecast reduced distributions on the back of higher interest costs.

## Fund Commentary

The fund ended the quarter down 1.91% slightly behind benchmark return. The largest positive contributors to relative return were overweight positions in **Waypoint REIT** (WPR) and **Stride Property** (SPG) and an underweight position in **Vital Healthcare** (VHP). WPR continues to sell non-core properties and rose 3.9% (in AUD) after announcing a valuation uplift along with confirming its intention to undertake \$100 million of capital management from property sale proceeds. Following a particularly weak June quarter, SPG rose 2.3% on no specific news. VHP fell 4.5% with its result highlighting the impact of increasing interest rates on distributions. VHP has relatively low hedging which means that rate increases flow through to earnings quicker.

The largest detractors from relative performance were underweight positions in **Property for Industry** (PFI) and **Goodman Property** (GMT) and an overweight in **Dexus Industria REIT** (DXI). PFI reported a good result and rose 2.9%. PFI and GMT both continue to benefit from their industrial property exposure and rose 0.7% and 0.9% respectively. While DXI's result was good, guidance for the dividend in the year ahead is lower than last year as interest costs eat into earnings. DXI lost 10.7% (in AUD) over the quarter.

Key portfolio changes during the quarter included adding to the funds positions in GMT, **Argosy Property** (ARG), VHP and **Kiwi Property** (KPG) while a small reduction was made in the **Precinct Properties** (PCT) position. (**Bold** denotes stocks held in the portfolio).

## Key Fund Facts

**Distributions Calendar** quarter

**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 95.6% hedged.

**Exclusions** Securities that conduct activities listed on the Schedule to Cluster Munitions Prohibition Act 2009.

**Restrictions** Tobacco stocks, 'controversial weapons', fossil fuels. For more information, please refer to the Statement of Investment Policy and Objectives (SIPO) which can be found on our website <https://www.nikkoam.co.nz/invest/retail>.

**Estimated annual fund charges**

Wholesale: negotiated outside of fund

Buy / Sell spread:	Strategy Launch	Strategy size
0.20% / 0.20%	February 2010	\$37m

## Compliance

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

## Contact Us

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