

# NIKKO AM PROPERTY STRATEGY

Applies to: Nikko AM Wholesale Property Fund

## Market Overview

- Global equity markets had a strong month on the back of lower-than-expected inflation in the United States and the prospect of smaller-than-expected increases in the Federal Reserve Funds Rate.
- The United States S&P 500 index rose 5.4%, the Japanese Nikkei 225 index added 1.4%, the UK FTSE 100 index gained 6.7%, the Australian ASX 200 index increased 6.6% and the MSCI World index ended the month up 6.3%.
- The S&P/NZX Real Estate index ended the month down 0.3% and behind the broader market with the S&P/NZX 50 index gaining 1.9%. The Australian property index rose 5.8%.

## Fund Highlights

- The fund rose 0.2%, 0.5% ahead of the index return.
- A number of the fund's holdings reported earnings for the period ended September.
- For the first time in many years property securities are reporting capitalisation rate expansion and portfolio valuation declines.
- Overweight positions in Dexus Industria REIT and Ingenia Communities and an underweight position Property for Industry added value.
- Underweight positions in Precinct Properties and Kiwi Property and an overweight in Stride Property detracted from value.

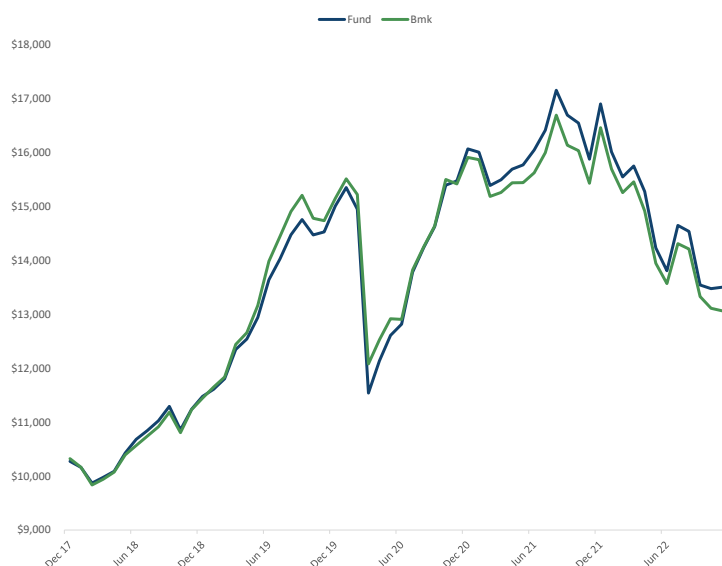
## Performance

	One month	Three months	One Year	Three years (p.a)	Five years (p.a)	Ten years (p.a)
Wholesale <sup>1</sup>	0.18%	-7.12%	-14.96%	-2.41%	6.19%	9.02%
Benchmark <sup>2</sup>	-0.34%	-8.05%	-15.33%	-3.93%	5.50%	8.41%

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 Nikko in 2006.

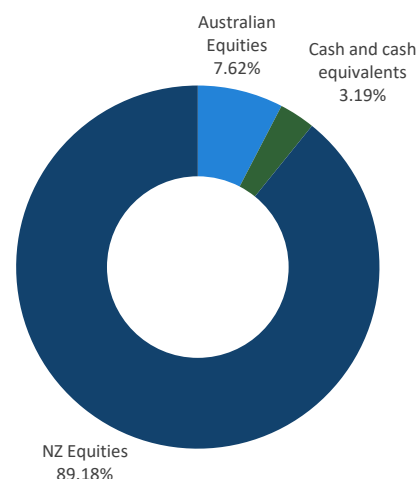
## Overview

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 (% of fund)			
What Helped		What Hurt					
Property For Industry Ltd	UW	Stride Property	OW	Goodman Property Trust	17.83	Vital Healthcare Property	7.97
Dexus Industria REIT	OW	Precinct Properties	UW	Precinct Properties New	13.55	Property for Industry	7.44
Ingenia Communities Group	OW	Kiwi Property Group	UW	Kiwi Property Group	12.42	Investore Property	6.59
OW: overweight; UW: underweight; NH: no holding.				Argosy Property Limited	11.84	Waypoint REIT Fully Paid	1.96
				Stride Stapled Grp	9.89	Ingenia Communities	1.66
				<b>Number of holdings</b>			<b>16</b>

## Market Commentary

Global equity markets are jumping at any sign that interest rates won't peak as high as initially expected. United State inflation came in at 7.7% which was below what the market was expecting. This led to the NASDAQ leaping more than 7% and the S&P 500 more than 5% on the day. Despite what markets are thinking, inflation remains high and central banks are focused on getting on top of it and as a result cash rates continue to be increased. The Reserve Bank of New Zealand is one of the most aggressive and raised rates another 75bps in the month taking the Official Cash Rate to 4.25% and is signalling that it will peak at 5.5%. This is not supportive of markets in general but more specifically property where it flows through to interest costs and property values.

## Fund Commentary

The fund ended the month up 0.2% and 0.5% ahead of the index which was down 0.3%. The largest positive contributors to relative return were overweight positions in **Dexus Industria REIT (DXI)** and **Ingenia Communities (INA)** and an underweight position **Property for Industry (PFI)**. Despite lowering earnings guidance to the bottom of its range due to wet weather, INA rose 10.2% (in AUD). DXI rose 10.9% (in AUD) while PFI fell 5.7 on no specific news.

The largest detractors from relative performance were underweight positions in **Precinct Properties (PCT)** and **Kiwi Property (KPG)** and an overweight in **Stride Property (SPG)**. PCT announced three deals during the month which saw them selling properties into funds, effectively taking them off balance sheet. This will also see PCT earning management and transaction fee income on these properties. PCT rose 3.6% over the month. KPG had preannounced its portfolio revaluation which declined 5.8% or \$213m. Retail sales have rebounded strongly from COVID impacts and KPG ended the period up 2.8%. SPG announced a dividend cut and potential asset sales to improve its balance sheet and ended down 6.3%.

Portfolio changes over the month included divesting the fund's position in Charter Hall (CHC) and reducing positions in **Centuria Industrial REIT (CIP)** and **DXI** following their strong performance during the month. The funded added to its position in **Goodman Property (GMT)**. (**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

<b>Buy / Sell spread:</b>	<b>Strategy Launch</b>	<b>Strategy size</b>
0.20% / 0.20%	February 2010	\$34.3m

## Compliance

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

## Contact Us

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