

Factsheet 31 July 2023

NIKKO AM PROPERTY STRATEGY

Applies to the Nikko AM Wholesale Property Fund

Market Overview

- Global equity markets had a strong month with all major markets seeing positive returns as data suggested inflation continues to ease around the globe.
- The United States S&P 500 index rose 3.1%, the Australian ASX 200 index lifted 2.9%, the UK FTSE 100 index rose 2.2%, and the MSCI World index ended the month 2.9% higher.
- The S&P/NZX Real Estate index had a strong month, up +4.2%, well ahead of the broader market with the S&P/NZX 50 index up +1.2%. The Australian property index also had a strong month, up +3.9%.

Fund Highlights

- The fund delivered a +4.35% return, in-line with the index return of 4.40%.
- Overweight positions in Dexus Industria REIT and Stride Property added value, as well as an underweight position in Goodman Property Trust.
- Overweight positions in Garda Property Group and Waypoint REIT detracted from value, as well as an underweight position in Winton land.

Performance

	One month	Three months	One Year	Three years (p.a)	Five years (p.a)	Ten years (p.a)
Wholesale ¹	4.35%	7.75%	-0.76%	1.79%	6.04%	9.18%
Benchmark ²	4.40%	7.67%	-1.13%	0.78%	5.67%	8.65%

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

2. Benchmark: from 1/6/2023 S&P/NZX All Real Estate Sector Group Gross with Imputation Credits Index. No tax or fees.

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



Portfolio Manager

Michael Sherrock,
Co-Head of Equities

Michael joined Nikko AM in 2006 and covers the Property, Energy, Materials, Metals & Mining and Media sectors. He has over 20 years' experience and previously held roles with Schroders UK and ASB Group Investments. Michael is a CFA charter-holder and holds a Bachelor of Commerce degree from the University of Auckland.



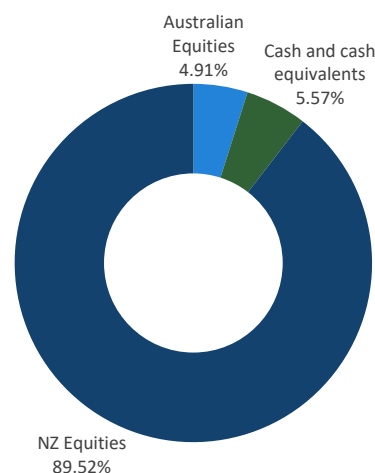
Overview

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					
Goodman Property	UW	Winton Land	UW	Goodman Property Trust	17.01	Vital Healthcare Property	8.77
Dexus Industria REIT	OW	Garda Property	OW	Precinct Properties	13.65	Property for Industry	7.41
Stride Property	OW	Waypoint REIT	OW	Kiwi Property Group	12.44	Investore Property	5.87
OW: overweight; UW: underweight; NH: no holding.				Argosy Property	11.61	Waypoint REIT	1.66
				Stride Property	9.70	Dexus Industria REIT	1.29
				Number of holdings			18

Market Commentary

Global equity markets performed strongly over July as positive US data bolstered hopes of a soft economic landing, despite the United States Federal Reserve raising the fed funds rate 25bp to a 5.25-5.50% range. US inflation continued its downward trend with the Personal Consumption Expenditures (PCE) index slowing to an annual 3% increase in June (from 3.8% in May), and core PCE inflation (which excludes food and energy) also easing to 4.2% (from 4.6% in May). In New Zealand, headline annual inflation of 6.0% was reported for the June quarter, slightly above market expectations of 5.9%. However, non-tradables (domestic) inflation of 6.6% was well ahead of the Reserve Bank of New Zealand’s 6.3% expectation, perhaps contributing to the NZ share market underperformance relative to overseas markets. Post month end, the Reserve Bank of Australia held its policy rate at 4.1% for the second month in a row, in-line with market expectations, but against most economists who expected a hike. The Reserve Bank of Australia stated it wanted more time to assess the impact of previous rate rises. Draft property valuations released during the month showed valuations declining on higher capitalisation rates. Portfolio metrics remain solid with low vacancy and good rental growth which goes some way to offsetting higher interest costs.

Fund Commentary

The fund had a strong month, up +4.35%, but 0.05% behind the index return of 4.4%. The largest positive contributors to the funds relative return were overweight positions in **Dexus Industria REIT (DXI)** and **Stride Property (SPG)** and an underweight position in **Goodman Property Trust (GMT)**. DXI and SPG performed well, rising 8.5% (in AUD) and +9.3% respectively. Stride made further positive moves to shore up its balance sheet by announcing the settlement of the sale of 22 The Terrace, Wellington, as well as two assets from its Industrie Property Joint Venture, and noting a third remains for sale. DXI bounced back from a weak month in June while GMT rose 1.8% on no specific news.

The largest detractors from relative performance were an underweight position in **Winton Land (WIN)** and overweight positions in **Garda Property Group (GDF)** and **Waypoint REIT (WPR)**. Following a well attended investor day WIN rose 25.8%. GDF fell 6.2% (in AUD) following the release of its earnings result. Guidance for the distribution for the year ahead was lower than expected due to the timing difference between asset sales and new property developments which results in a short term hole in rental income. WPR rose 1.2% following the release of its draft portfolio revaluation which saw a relatively small devaluation of \$27.1m.

Portfolio changes over the month included adding to its positions in **Argosy (ARG)**, **Kiwi Property (KPG)**, SPG and **Vital Healthcare**, (PCT) and **Kiwi Property (KPG)**. The fund’s holding in Charter Hall (CHC) was divested. (**Bold** denotes stocks held in the portfolio).

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%.

Buy / Sell spread: 0.20% / 0.20% **Strategy Launch** February 2010 **Strategy size** \$38.3m

Currently the fund’s foreign currency exposure is 97.7% hedged.

Exclusions Controversial weapons (including but not limited to cluster munitions and chemical, biological and nuclear weapons).

Restrictions Tobacco stocks, 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>.

Compliance

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

Contact Us

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