

Factsheet 30 September 2023

NIKKO AM PROPERTY STRATEGY

Applies to the Nikko AM Wholesale Property Fund.

Market Overview

- Global equity markets struggled over the quarter as sticky inflation saw bond yields spike and central banks push out the timing of interest rate cuts.
- The United States S&P 500 index fell 3.7%, the Japanese Nikkei 225 declined 4.0%, the UK FTSE 100 index rose 1.0%, the Australian ASX 200 index lost 0.8% and the MSCI World index ended the quarter down 2.5% (in local terms).
- The S&P/NZX Real Estate index had a weak quarter, down 5.3% and behind the broader market with the S&P/NZX 50 down 4.8%. The Australian property index ended the quarter down 3.0%.

Fund Highlights

- The fund fell 5.2% and marginally ahead of the index return by 0.1%.
- News flow in the September quarter was dominated by companies announcing their earnings results for the period ending June.
- Overweight positions in Ingenia Communities and Argosy and an underweight position in Precinct Properties added value. Underweight positions in Property for Industry and Winton Land and an overweight position in Waypoint REIT detracted from value.

Performance

	One month	Three months	One year	Three years (p.a)	Five years (p.a)	Ten years (p.a)
Wholesale ¹	-3.31%	-5.15%	-2.44%	-3.32%	3.20%	8.24%
Benchmark ²	-3.09%	-5.29%	-3.72%	-4.29%	2.79%	7.83%

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,
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.



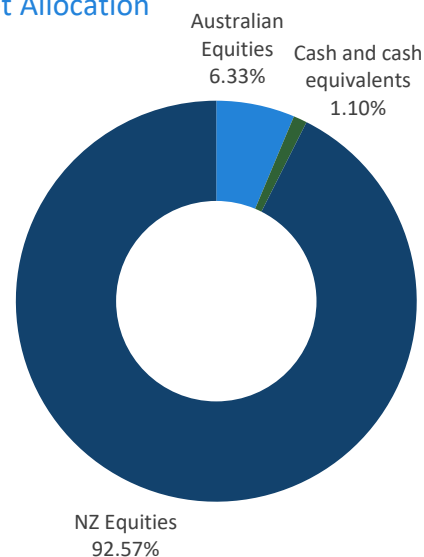
Overview

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 (Quarter)				Top 10 holdings (% of fund)			
What Helped:		What Hurt:					
Ingenia Communities	OW	Property for Industry	UW	Goodman Property	19.00	Vital Healthcare	9.08
Argosy	OW	Winton Land	UW	Precinct Properties	13.01	Property for Industry	7.69
Precinct Properties	UW	Waypoint REIT	OW	Kiwi Property	12.93	Investore Property	5.82
OW: overweight; UW: underweight; NH: no holding.				Argosy Property	11.99	Waypoint REIT	1.62
				Stride Property	9.16	Ingenia Communities	1.44
				Number of holdings			19

Market Commentary

Global equity markets struggled over the quarter as sticky inflation saw bond yields spike and central banks push out the timing of interest rate cuts. The New Zealand 10-year government bond rose 69 basis points ending the quarter at 5.31% while the United States government bond rose 73 basis points and ended the quarter at 4.57%. Both have pushed higher again by 20 basis points post quarter end. In its August Monetary Policy Statement (MPS), the Reserve Bank of New Zealand has pushed out its expectations for rate cuts from late 2024 to early 2025, about six months later than it had signalled at its May MPS. The New Zealand company earnings results saw most meet expectations, but the disappointment came in the outlook statements which were impacted by continued operating cost inflation and interest rate impacts. New Zealand investors will be focusing on the general election on the 14th of October with the hope that a clear outcome eventuates without having to have a drawn-out negotiation between potential coalition partners.

Fund Commentary

The largest positive contributors to the fund’s relative return were overweight positions in **Ingenia Communities** (INA) and **Argosy** (ARG) and an underweight position in **Precinct Properties** (PCT). INA rose 7.1% (in AUD) after announcing a result and outlook that was a touch better than expected. On no specific news ARG rose 2.1% while PCT fell 9.6% as it was impacted by the tax policies released by political parties which will see depreciation on buildings not allowed for tax purposes. PCT would also have been impacted by it issuing a convertible note which would have resulted in switching between the stock and the note.

The largest detractors from relative performance were underweight positions in **Property for Industry** (PFI) and **Winton Land** (WIN) and an overweight position in **Waypoint REIT** (WPR). While PFI fell 3.9%, it was less than the index fall so our underweight position impacted negatively on relative performance. WIN rose 19.9% following a well-attended investor day, solid result and is not impacted by proposed tax changes that others in the sector will be negatively impacted by. Despite a result in line with expectations, WPR fell 11.6% (in AUD) as it was dragged lower by higher bond rates which saw a material sell off in Australian property stocks late in the quarter.

Portfolio changes over the quarter included adding **Centuria Industrial REIT** (CIP) and WIN to the portfolio along with small increases to **Kiwi Property** (KPG), **Goodman Property** (GMT) and PCT. A small reduction was made to the position in ARG. (**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 97.7% hedged.

Estimated annual fund charges

Wholesale: negotiated outside of fund

Buy / Sell spread:	Strategy Launch	Strategy size
0.20% / 0.20%	February 2010	\$33.5m

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 quarter.

Contact Us

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