

Nikko AM Property Strategy

Monthly Update 31 January 2024

Applies to the Nikko AM Wholesale Property Fund.

Market Overview

- Global equity markets have had a solid start to the year with most markets continuing the good performance seen in November and December.
- The United States S&P 500 index rose 1.6%, the Japanese Nikkei 225 jumped 8.4%, the UK FTSE 100 index declined 1.3%, the Australian ASX 200 index increased 1.2% and the MSCI World index ended the month up 1.2% (in local terms).
- The S&P/NZX Real Estate index fell 0.4% and behind the broader market with the S&P/NZX 50 up 0.9%. The Australian property index rose 1.2%.

Fund Highlights

- The fund fell 0.3%, 0.1% ahead of the index return.
- It was a relatively quiet month for news flow with a number of the fund's holdings due to report results in February for the period ending December.
- New Zealand Rural Land Co. sold a 25% interest in its underlying assets to an Australian based investment manager. The sale price was materially above where the stock was trading.
- Underweight positions in Goodman Property and Precinct Properties and an overweight position in Argosy property added value. Underweight positions in Property for Industry and New Zealand Rural Land Co. and an overweight position in Ryman Healthcare detracted from value.

Performance

	One month	Three months	One year	Three years (p.a.)	Five years (p.a.)	Ten years (p.a.)
Wholesale¹	-0.28%	11.47%	3.67%	-4.25%	3.89%	8.92%
Benchmark²	-0.36%	11.57%	4.60%	-4.88%	3.23%	8.59%

1. Returns are before tax and before the deduction of fees and including tax credits (if any).

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

Portfolio Manager

**Michael Sherrock,
Head of Equities**



Michael joined Nikko AM in 2006 and covers the Property, Energy, Materials, Metals and 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 charterholder 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.

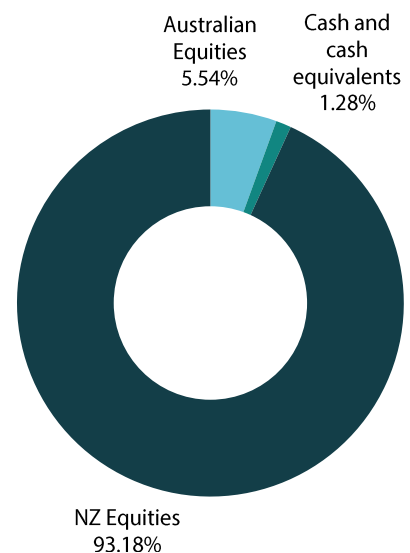
Objective

The fund aims to outperform the benchmark return by 1.5% per annum before fees, expenses and taxes over a rolling three-year period.

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



Asset Allocation



Attribution To Performance			
What Helped:		What Hurt:	
Argosy Property	OW	Property for Industry	UW
Goodman Property	UW	NZ Rural Land Co.	UW
Precinct Properties	UW	Ryman Healthcare	OW

OW: overweight; UW: underweight; NH: no holdings

Top 10 Holdings (% of fund)			
Goodman Property	18.32	Vital Healthcare Property	9.49
Precinct Properties	13.33	Property for Industry	7.35
Kiwi Property	13.13	Investore Property	5.43
Argosy Property	11.59	Waypoint REIT	1.76
Stride Stapled	10.05	Ingenia Communities	1.52
		Number of holdings	18

Market Commentary

Despite continuing tensions in the Middle East, including attacks on ships in the Red Sea, global equity markets have had a solid start to the year. The United States released several strong pieces of economic data including robust jobs report, steady unemployment and much better economic growth. This, along with a continued view that rate cuts are on the horizon, gave investors confidence in the equity market. Following the Federal Open Market Committee meeting where rates were left unchanged, the Governor of US Federal Reserve stressed that they are in no rush to cut rates. This led to a drop in the US market on the last day of the month. Commentary from Central Banks over the coming months around timing of rate cuts will be important for the performance of markets. After a strong run into the end of 2023, the property sector in New Zealand had a small pull back as bond yields moved slightly higher in January.

Fund Commentary

The largest positive contributors to the fund's relative return were underweight positions in **Goodman Property** (GMT) and **Precinct Properties** (PCT) and an overweight position in **Argosy property** (ARG). After underperforming the sector in the last quarter of 2023, ARG had a good start to 2024 and ended the month up 3.6%. PCT and GMT were on the opposite side of the ledger following the good final quarter of 2023 and underperformed in January. PCT ended the month down 1.6% while GMT fell 1.8%. There was no specific news flow for these stocks.

The largest detractors from relative performance were underweight positions in **Property for Industry** (PFI) and **New Zealand Rural Land Co.** (NZL) and an overweight position in **Ryman Healthcare** (RYM). After a very strong December where it was up more than 9%, RYM pulled back and ended the month down 3.4%. NZL sold a 25% interest in its underlying assets to an Australian based investment manager with the sale price materially above where the stock was trading. NZL ended the period up 11.9%. After underperforming the sector in December, PFI rose 1.3% in January on no specific news.

Portfolio changes over the month included adding to our position in RYM while making small reductions to positions in **ARG** and **Stride Property** (SPG).

(**Bold** denotes stocks held in the portfolio).

Key Fund Facts

Estimated annual fund charges (incl. GST)	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 96.3% hedged.	Strategy Launch: February 2010
Wholesale: Negotiated outside of the unit price.	Exclusions: Controversial weapons (including but not limited to cluster munitions and chemical, biological and nuclear weapons).	Strategy size: \$33.9m
Distributions:	Restrictions: Tobacco stocks, fossil fuels. For more information, please refer to the Statement of Investment Policy and Objectives (SIPO) on our website https://www.nikkoam.co.nz/invest/retail .	Buy / Sell spread: 0.20%/0.20%
Wholesale: Calendar quarter		

Compliance

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

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