

Nikko AM Property Strategy

Monthly Update 30 June 2024

Applies to the Nikko AM Wholesale Property Fund.

Market Overview

- Global equity markets had a mixed performance over the quarter with the timing of rate cuts being pushed out and bond yields moving higher negatively impacting markets, offset by earnings results.
- The United States S&P 500 index rose 3.9%, the Japanese Nikkei 225 fell 2.0%, the UK FTSE 100 index increased 2.7%, the Australian ASX 200 index declined 1.1%, and the MSCI World index ended the quarter up 3.4% (in local terms).
- The S&P/NZX 50 index ended the quarter down 3.1%, while the S&P/NZX Real Estate Index was down 8.6% and the S&P/ASX 300 A-REIT index was down 5.7%.

Fund Highlights

- The S&P/NZX Real Estate index continued its recent weakness in June, down a further 3.1%, bringing the quarterly return to a negative 8.6%. Positively, the fund outperformed its benchmark, down 3.0% for June and 8.0% for the quarter.
- The largest contributors to the weak quarterly index performance were Goodman Property, down 11% on the back of some emerging weakness in industrial market fundamentals, as well as Vital Healthcare, down 18% on expectations it will be removed from the FTSE Small Cap and NAREIT Indices at the September review.
- Over the quarter, underweight positions in Vital Healthcare and Goodman Property Trust, as well as an overweight position in Region Group added value. Overweight positions in Ryman Healthcare, Waypoint REIT, and Stride Property detracted from value.

Performance

| | One month | Three months | One year | Three years (p.a.) | Five years (p.a.) | Ten years (p.a.) |
|------------------------------|-----------|--------------|----------|--------------------|-------------------|------------------|
| Wholesale¹ | -2.96% | -7.96% | -6.89% | -6.84% | -1.00% | 6.99% |
| Benchmark² | -3.13% | -8.55% | -7.57% | -7.10% | -2.18% | 6.59% |

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.

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



Portfolio Manager

Owen Batchelor,
Portfolio Manager

Owen joined Nikko in 2020 and covers the Utilities, Healthcare, Infrastructure and Property sectors.



Owen has over 10 years' experience in the finance industry, most recently covering listed property at Jarden in New Zealand. Owen holds a Bachelor of Commerce and a Bachelor of Science from Victoria University.

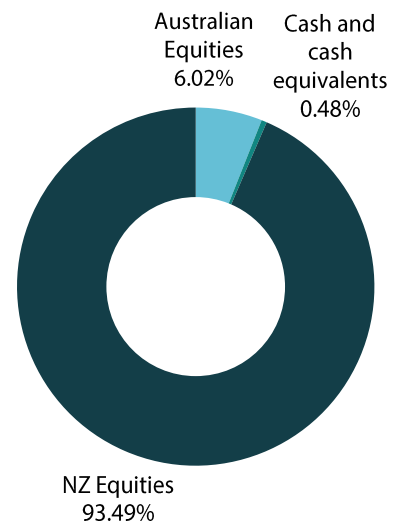
Overview

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 | | | |
|----------------------------|----|------------------|----|
| What Helped: | | What Hurt: | |
| Vital Healthcare | UW | Ryman Healthcare | OW |
| Goodman Property Trust | UW | Waypoint REIT | OW |
| Region Group | OW | Stride Property | OW |

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

| Top 10 Holdings (% of fund) | | | |
|-----------------------------|-------|---------------------------|-----------|
| Goodman Property | 19.56 | Property for Industry | 8.23 |
| Precinct Properties | 16.49 | Vital Healthcare Property | 7.05 |
| Kiwi Property | 14.89 | Investore Property | 3.89 |
| Argosy Property | 10.81 | Ingenia Communities | 1.72 |
| Stride Stapled | 8.54 | Waypoint REIT | 1.59 |
| | | Number of holdings | 19 |

Market Commentary

While there was mixed economic data over the quarter, sticky inflation continues to impact markets with the likely timing of interest rate cuts by the US Federal Reserve pushed out. There is also a risk that the Reserve Bank of Australia raises rates as Australian CPI continues to print higher than expectations. This led to 10-year bond yields rising over the quarter from 4.2% to 4.4%, the Australian 10-year rate increasing from 4.0% to 4.3% and the New Zealand 10-year rate increasing from 4.5% to 4.7%. The pushing out of the timing of rate cuts and the increase in bond yields had a negative impact on equity markets, and in particular, the New Zealand and Australian real estate sectors, which were down 8.6% and 5.7% respectively, notably underperforming the broader equity indices.

Fund Commentary

The largest positive contributors to the fund's relative return over the quarter were underweight positions in **Vital Healthcare** (VHP) and **Goodman Property** (GMT), as well as an overweight position in **Region Group** (RGN). Goodman Property was down 11% on some emerging weakness within the industrial market, while Vital Healthcare was down 18% on expectations it will be removed from the FTSE Small Cap and NAREIT Indices at the September review. In the period that the fund held RGN, it delivered a 1.6% return, outperforming the negative index return over the quarter.

The largest detractors from relative performance over the quarter were overweight positions in **Ryman Healthcare** (RYM), **Waypoint REIT** (WPR), and **Stride Property Group** (SPG). RYM fell 20% over the quarter following the resignation of its Chief Executive Officer, as well as some disappointing accounting revelations alongside its FY24 result. Additionally, a large institutional investor exited its holding, which saw more than 35 million RYM shares sold, worth ~NZ\$130 million. WPR and SPG declined 13% and 10% respectively on no specific news, although SPG's weakness is likely due to higher bond yields disproportionately impacting property fund managers over asset owners.

Portfolio changes over the quarter included reducing positions in **Investore Property** (IPL), **Garda Property Group** (GDF), and **Vital Healthcare** (VHP), as well as adding to positions in **Centuria Industrial REIT** (CIP), **Region Group** (RGN), and **Summerset Group** (SUM).

(**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 101.4% 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: \$19.2m |
| 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/institutional . | Buy / Sell spread: 0.20%/0.20% |
| Wholesale: Calendar quarter | | | |

Compliance

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

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