

Nikko AM Property Strategy

Monthly Update 31 August 2024

Applies to the Nikko AM Wholesale Property Fund.

Market Overview

- Global equity markets had a mixed performance over the month with economic data, rate outlooks, and earnings results leading to a volatile month.
- The United States S&P 500 index rose 2.3%, the Japanese Nikkei 225 fell 1.2%, the UK FTSE 100 index increased 0.1%, the Australian ASX 200 index gained 0.5% and the MSCI World index ended the month up 1.7% (in local terms).
- Locally, the S&P/NZX 50 index was up 0.4%, while the S&P/NZX Real Estate Index was up a strong 7.2%. The S&P/ASX 300 A-REIT index was up just 0.6%.

Fund Highlights

- The fund had a strong month, up 7.1%, albeit marginally behind the index return of 7.2%.
- The strong absolute return followed the Reserve Bank of New Zealand (RBNZ) cutting the Official Cash Rate by 0.25% halfway through the month.
- It was a busy month with many of our property holdings across NZ and Australia reporting results.
- The fund's underweight positions in Goodman Property and Property for Industry added relative value, as did an overweight position in Stride Property. Overweight positions in Dexus Industria REIT and Ingenia Communities, as well as an underweight position in Precinct Properties detracted from relative value.

Performance

	One month	Three months	One year	Three years (p.a.)	Five years (p.a.)	Ten years (p.a.)
Wholesale¹	7.12%	10.50%	8.09%	-4.87%	0.41%	7.87%
Benchmark²	7.22%	9.80%	7.21%	-5.26%	-0.97%	7.39%

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.

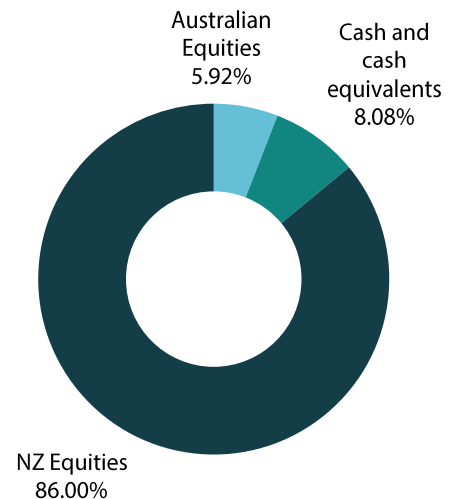
Overview

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:	
Goodman Property	UW	Dexus Industria REIT	OW
Property for Industry	UW	Ingenia Communities	OW
Stride Property	OW	Precinct Properties	UW

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

Top 10 Holdings (% of fund)			
Goodman Property	16.27	Property for Industry	6.71
Precinct Properties	16.01	Vital Healthcare Property	6.49
Kiwi Property	15.00	Investore Property	3.69
Argosy Property	9.82	Waypoint REIT	1.65
Stride Stapled	8.87	Ingenia Communities	1.47
		Number of holdings	19

Market Commentary

Weak economic data and the unwind of the carry trade in Japan saw markets sell off aggressively early in the month. More positive economic data came out shortly after which resulted in a remarkably quick turnaround. In the first three days of the month the Japanese Nikkei 225 index fell 19.5%, with one of the days down 12.4%. The following day saw the index recover 10.2% and by the end of the month it was only down 1.1%. While not to the same magnitude, other markets also showed large volatility during the month. Along with economic data and the carry trade unwind, company earnings results also pushed returns around. In New Zealand, the Reserve Bank followed through on its dovish statement in July and cut the Official Cash Rate by 0.25%. This was accompanied by a much more aggressive rate cut track than was provided in its last update in May. While this was initially rewarded by a move up in the NZX 50 index, the reality of the weak economy showed up in earnings results and the index drifted lower to end the month up 0.4%, down from its intra month high of 2.6%.

Fund Commentary

The largest positive attributors to the fund's relative return over the month were underweight positions in **Goodman Property** (GMT) and **Property for Industry** (PFI), as well as an overweight position in **Stride Property** (SPG). GMT and PFI delivered respectable monthly returns of 2.7% and 3.2%, respectively, however they underperformed the strong index return of 7.22%, as investors re-rated more heavily discounted names following the cut to the OCR by the RBNZ. Stride Property delivered the greatest return over the month, up 14.1%, likely due to it being one of the largest beneficiaries of falling interest rates given its fund management operations.

The largest detractors from relative performance came from two of our Australian holdings, Ingenia Communities (INA) and Dexus Industria REIT (DXI), both underperforming the strong S&P/NZX Real Estate Index return over the month. **Ingenia Communities** (INA) announced a solid FY24 result which was ahead of market expectations, which saw the stock up 6% on the day, although it ultimately ended the month largely flat. **Dexus Industria REIT** (DXI) reported an in-line FY24 result, although the stock fell 4.5% over the month for no specific reason. Our underweight position in **Precinct Properties** (PCT) also detracted from value as the stock rose 10.7%, possibly reflecting more generalised equity investors using the stock to increase their property exposure in a falling interest rate environment.

Portfolio changes over the month included reducing positions in **Asset Plus** (APL) and adding to our position in **Ingenia Communities** (INA).

(**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 95.6% 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: \$24.8m
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 month.

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