

# Nikko AM Property Strategy

Monthly Update 30 September 2024

Applies to the Nikko AM Wholesale Property Fund.

## Market Overview

- While volatile over the quarter, global equity markets generally posted solid returns for the period as key central banks cut rates.
- The United States S&P 500 index rose 5.5%, the Japanese Nikkei 225 fell 4.2%, the UK FTSE 100 index increased 0.9%, the Australian ASX 200 index gained 7.8% and the MSCI World index ended the quarter up 4.9% (in local terms).
- Locally, the S&P/NZX 50 index was up 6.4% over the quarter, while the S&P/NZX Real Estate Index was up 8.4%, and the S&P/ASX 300 A-REIT index was up 8.6%.

## Fund Highlights

- The fund delivered a strong 9.6% over the quarter, 1.2% ahead of the index return.
- Sector performance was strong in July and August on the back of more dovish-than-expected commentary from the RBNZ in July and a cut to the Official Cash Rate in August, before September saw the sector give back roughly a third of its gains made over the prior two months.
- Quarterly stock performance across the sector was varied, with more undervalued names previously trading at large discounts to their Net Tangible Asset value bouncing strongly (Stride Property rose 20%; Investore Property rose 15%), while the more fully priced industrial names underperformed the over index return.
- Over the quarter, the fund's overweight positions in Waypoint REIT and Stride Property added relative value, as did an underweight position in Property for Industry. In terms of detractors, this came via an underweight position in Precinct Properties, as well as overweight positions in Ingenia Communities and Dexus Industria REIT.

## Performance

	One month	Three months	One year	Three years (p.a.)	Five years (p.a.)	Ten years (p.a.)
<b>Wholesale<sup>1</sup></b>	-3.70%	9.65%	7.64%	-5.20%	-0.73%	7.67%
<b>Benchmark<sup>2</sup></b>	-4.34%	8.43%	5.83%	-5.58%	-2.24%	7.11%

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<sup>1,2</sup>



## 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.

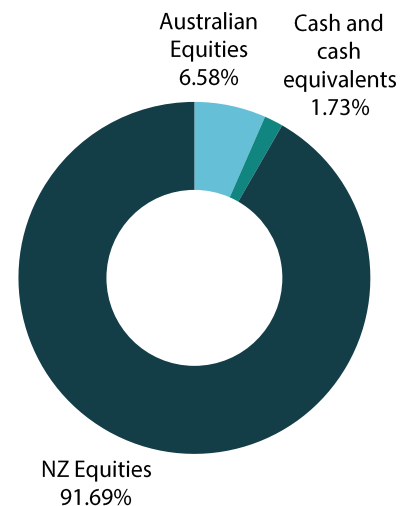
## Overview

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

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

Top 10 Holdings (% of fund)			
Goodman Property	17.40	Stride Stapled	9.10
Kiwi Property	16.19	Property For Industry	6.98
Precinct Properties	15.91	Investore Property	3.71
Argosy Property	9.68	Waypoint REIT	1.71
Vital Healthcare Property	9.61	Ingenia Communities	1.56
<b>Number of holdings</b>			<b>19</b>

## Market Commentary

Early in the quarter global markets were impacted by a rotation away from large cap tech related stocks, along with rate cuts (and the prospect of rate cuts). August was impacted by weak economic data and the unwind of the carry trade in Japan which saw markets sell off aggressively early in the month. More positive economic data came out shortly after which resulted in a remarkably quick turnaround. September was assisted by a 50bp rate cut by the US Federal Reserve and a large stimulus package in China aimed at restoring confidence in the economy. In New Zealand, the Reserve Bank surprised markets in July with a much more dovish statement, followed up by a cut in the Official Cash Rate in August. This led to the equity market producing a strong return in July and most of August, before the reality of the weak economy was shown in earnings results from companies. In September, Auckland International Airport conducted a \$1.4 billion capital raising, the largest ever in New Zealand outside of an Initial Public Offering. This was followed by Fletcher Building raising \$700m to improve its balance sheet. The combination of these two weighed on the market as investors funded their participation in them by selling other stocks.

## Fund Commentary

The largest positive contributors to the fund's relative return over the quarter were overweight positions in **Waypoint REIT (WPR)** and **Stride Property (SPG)**, along with an underweight position in **Property for Industry (PFI)**. WPR and SPG performed strongly over the quarter, delivering returns of 23% and 20%, respectively, as more undervalued REITs re-rated during the early stages of the interest rate easing cycle. Property for Industry delivered a positive 1.9% return over the quarter, although it underperformed the strong 8.4% quarterly index return (along with many other New Zealand and Australian industrial-focused REITs).

The largest detractors from relative performance came from an underweight position in **Precinct Properties (PCT)**, along with overweight positions in **Dexus Industria REIT (DXI)** and **Ingenia Communities (INA)**. PCT performed strongly, up 14% over the quarter as more generalised investors favoured the stock to increase their property exposure across the NZ market in anticipation of a rate cycle. DXI and INA both delivered respectable returns over the quarter, up 4.3% and 6.5% respectively, although they were unable to keep up with the strong NZ index return.

Portfolio changes over the quarter included adding to our positions in **Vital Healthcare Property Trust, Kiwi Property, and Ingenia Communities (INA)**.

## Key Fund Facts

<b>Estimated annual fund charges (incl. GST)</b>		<b>Hedging:</b> 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 93.7% hedged.	<b>Strategy Launch:</b>	February 2010
<b>Wholesale:</b>	Negotiated outside of the unit price.		<b>Strategy size:</b>	\$24.3m
<b>Distributions:</b>		<b>Exclusions:</b> Controversial weapons (including but not limited to cluster munitions and chemical, biological and nuclear weapons).	<b>Buy / Sell spread:</b>	0.20%/0.20%
<b>Wholesale:</b>	Calendar quarter			
		<b>Restrictions:</b> Tobacco stocks, fossil fuels. For more information, please refer to the Statement of Investment Policy and Objectives (SIPO) on our website <a href="https://www.nikkoam.co.nz/invest/institutional">https://www.nikkoam.co.nz/invest/institutional</a> .		

## Compliance

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

## Contact Us

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