

Nikko AM Property Strategy

Monthly Update 31 May 2024

Applies to the Nikko AM Wholesale Property Fund.

Market Overview

- Global equity markets bounced back from a relatively weak performance in April with a solid performance in May as company earnings results gave support to the market.
- The United States S&P 500 index rose 4.8%, the Japanese Nikkei 225 gained 0.2%, the UK FTSE 100 index increased 1.6%, the Australian ASX 200 index added 0.9% and the MSCI World index ended the month up 3.7% (in local terms).
- The S&P/NZX 50 index ended the month down 0.8%, while the S&P/NZX Real Estate Index was down 3.0%.

Fund Highlights

- The fund was down 2.5% over the month, although it was ahead of the S&P/NZX Real Estate index which was down 3.0%.
- May was a busy month with six of the property companies announcing 2024 full-year results. Overall, results were in-line with expectations, while guidance for FY25 was subdued with all but GMT guiding to either flat or lower dividends on the back of the removal of the ability to claim tax depreciation on commercial buildings.
- An underweight position in Vital Healthcare, as well as overweight positions in Ingenia Communities and Stride Property added value over the month. An underweight position in Precinct Properties and overweight positions in Asset Plus and Investore Property detracted from value.

Performance

	One month	Three months	One year	Three years (p.a.)	Five years (p.a.)	Ten years (p.a.)
Wholesale¹	-2.48%	-1.46%	-0.77%	-5.36%	0.65%	7.35%
Benchmark²	-2.96%	-1.96%	-0.99%	-5.75%	-0.36%	6.91%

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.

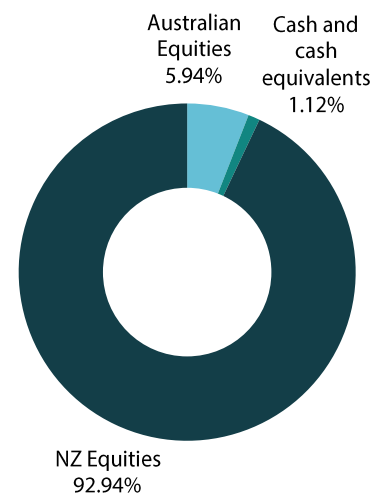
Overview

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				Top 10 Holdings (% of fund)			
What Helped:		What Hurt:		Goodman Property	19.91	Property for Industry	7.75
Vital Healthcare	UW	Precinct Properties	UW	Precinct Properties	16.62	Vital Healthcare Property	7.26
Ingenia Communities	OW	Asset Plus	OW	Kiwi Property	14.10	Investore Property	3.64
Stride Property	OW	Investore Property	OW	Argosy Property	11.22	Ingenia Communities	1.65
OW: overweight; UW: underweight; NH: no holdings				Stride Stapled	8.84	Waypoint REIT	1.65
						Number of holdings	19

Market Commentary

Globally, company earnings were a dominant factor in equity market performances over May, along with a recovery of a weaker performance in April. The tech heavy Nasdaq index was a strong performer, up 6.9% as the likes of Nvidia, Apple, Meta and Microsoft continued to push higher on good results, up 26.9%, 12.9%, 8.5% and 6.6% respectively over the month.

Locally, six of the property companies announced their 2024 full year results. Results were generally in-line with market expectations, although guidance for FY25 was subdued on the back of the removal of the ability to claim tax depreciation on commercial buildings. IPL and KPG guided to lower dividends, while ARG and SPG guided to flat dividends. GMT was the only property company to guide to an increase in its dividend for FY25. The New Zealand Reserve Bank's Monetary Policy statement had a hawkish tone, pushing out the timing of rate cuts to the back end of 2025 and noting that it considered raising the Official Cash Rate. The New Zealand government delivered its budget which had no material impact on stocks or the market in general.

Fund Commentary

The largest positive contributors to the fund's relative return over the month were an underweight position in **Vital Healthcare** (VHP) and overweight positions in **Ingenia Communities** (INA) and **Stride Property** (SPG). VHP fell 12.1% on the back of expectations it will be removed from the FTSE Small Cap and NAREIT Indices at the September semi-annual review. INA delivered a 3.7% return over the month after announcing that it expects its FY24 result to be at the top end of its guidance range. SPG announced its result which saw it hold its dividend flat and the stock rise 2.4% over the month.

The largest detractors from relative performance over the month were an underweight position in **Precinct Properties** (PCT), and overweight positions in **Asset Plus** (APL) and **Investore Property** (IPL). PCT rose 1.1% over the month on no specific news, while IPL fell 9.8% after guiding to an almost 10% lower dividend in FY25 (albeit this had already been signalled to the market). APL slipped a notable 11% ahead of its result late in the month but has since recovered.

Portfolio changes over the month included reducing positions in **Argosy Property** (ARG), **Dexus Industria REIT** (DXI), and **Investore Property** (IPL), as well as adding to positions in **Centuria Industrial REIT** (CIP) and **Region Group** (RGN).

(**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 96.0% 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:	\$20m
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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