

NIKKO AM PROPERTY STRATEGY

Applies to: Nikko AM Wholesale Property Fund

Market Overview

- Global equity markets were mixed over the quarter with the prospect of interest rate increases in 2022, Chinese regulation of industries and companies and the potential collapse of the Evergrande Group weighing on markets. On the positive side, the rollout of COVID-19 vaccines allowed more freedom in a number of countries. Locally the Reserve Bank of New Zealand was set to raise the Official Cash Rate before a surprise COVID-19 outbreak in New Zealand put that on hold.
- The United States S&P 500 index rose 0.2%, the Japanese Nikkei 225 index gained 2.3%, the UK FTSE 100 index increased 0.7%, the Australian ASX 200 index added 1.7% and the MSCI World index ended the month down 0.4%.
- The S&P/NZX Real Estate index ended the quarter up 3.3% but underperformed the broader market with the S&P/NZX 50 index jumping 5.2%. The Australian property index had a strong quarter ending up 4.8%.

Fund Highlights

- The fund rose 4.0% over the quarter, 0.7% ahead of the index return.
- A number of the fund's holdings reported earnings results for the period ending June with results generally inline or better than expected.
- Centuria Industrial REIT and APN Industria REIT raise AUD \$300m and AUD \$350m respectively.
- Overweight positions in Summerset and Garda Property and an underweight position in Vital Healthcare added value. Overweight positions in Investore Property and Centuria Industrial REIT and an underweight position in Goodman Property detracted from value.

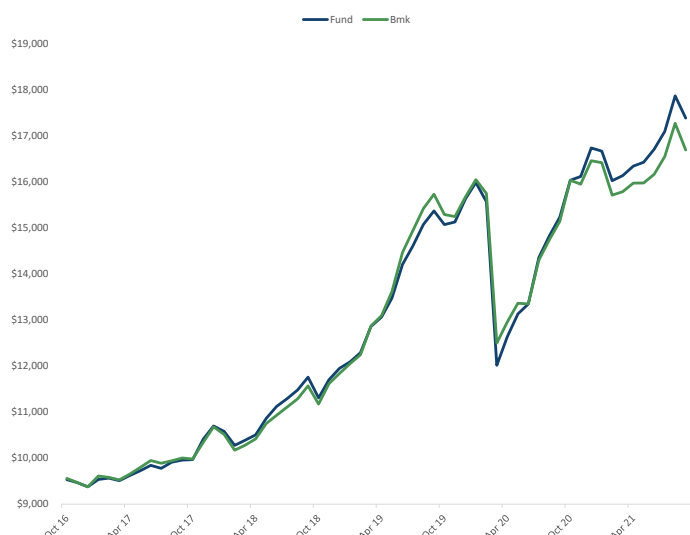
Performance

	One month	Three months	One Year	Three years (p.a)	Five years (p.a)	Ten years (p.a)
Wholesale ¹	2.70%	4.04%	14.15%	13.93%	11.70%	13.71%
Benchmark ²	3.35%	3.27%	10.24%	13.00%	10.80%	12.99%

1. Returns are before tax and before the deduction of fees.

2. Benchmark: S&P/NZX All Real Estate Industry Group Gross with Imputation Credits Index. No tax or fees.

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



Portfolio Manager

Michael Sherrock,
Portfolio Manager

Responsible for the Property and NZ Equities Fund. Covers the Property, Energy, Materials and Retirement sectors. Nineteen years of experience within the finance industry including Schroders in the UK and ASB Group Investments in New Zealand. Michael holds a Bachelor of Commerce degree from the University of Auckland and is a CFA charter holder. Joined in 2006.



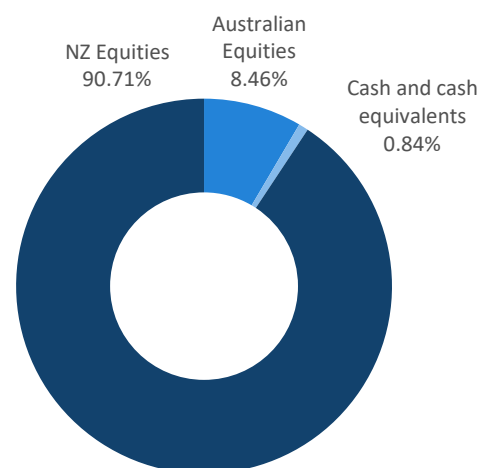
Overview

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 (quarter)				Top 10 holdings (as at quarter end)			
What Helped		What Hurt					
Summerset Group Ltd	OW	Investor Property Ltd	OW	Goodman Property Ltd	17.18%	Property For Industry Ltd	6.86%
Vital Healthcare Property	UW	Goodman Property	UW	Precinct Properties Ltd	14.91%	Investore Property Ltd	6.51%
Garda Property Group	OW	Centuria Industrial	OW	Argosy Property Ltd	13.44%	Vital Healthcare Property	4.37%
OW: overweight; UW: underweight; NH: no holding.				Kiwi Property Ltd	11.88%	Summerset Group Ltd	2.63%
				Stride Stapled	11.68%	Centuria Industrial	2.21%
				Number of holdings			17

Market Commentary

Global equity markets were mixed over the quarter with the prospect of interest rate increases in 2022, Chinese regulation of industries and companies and the potential collapse of the Evergrande Group weighing on markets. The Chinese equity market was particularly affected with the CSI 300 index down 6.9% over the quarter. Despite the spread of the Delta variant of COVID-19 around the world the vaccine rollout has enabled more freedom in many countries. With inflation moving higher and unemployment low the Reserve Bank of New Zealand was set to raise the Official Cash Rate before a surprise COVID-19 outbreak in New Zealand put that on hold. Earnings results in New Zealand for the period ending June were good but with the COVID-19 outbreak the near-term outlook is uncertain.

Fund Commentary

The fund ended the quarter up 4.0% and 0.7% ahead of the index which was up 3.3%. The largest positive contributors to relative return were overweight positions in **Summerset** (SUM) and **Garda Property** (GDF) and an underweight position in **Vital Healthcare** (VHP). SUM rose 14.0% after reporting a very strong half year result and a better-than-expected build rate for the year. GDF reported a strong portfolio revaluation and provided a 14.2% (in AUD) return for the quarter. VHP fell 0.4% as speculation that it would be included in a global real estate index didn't eventuate.

The largest detractors from relative performance were overweight positions in **Investore Property** (IPL) and **Centuria Industrial REIT** (CIP) and an underweight position in **Goodman Property** (GMT). Despite increasing distribution guidance, IPL fell 0.8%. CIP fell late in the quarter as it absorbed its \$300m capital raise and ended the period up 1.5% (in AUD) but below the index return. GMT benefited from a large portfolio revaluation and added 5.7% over the period.

Key portfolio changes during the quarter included adding to the fund's positions in CIP and **APN Industria REIT** (ADI) through their respective capital raisings. The fund also added to its positions in **Precinct Properties** (PCT) and GMT. Positions in **Stride Property** (SPG), **Argosy Property** (ARG) and **Ingenia Communities** (INA) were reduced. The fund's position in Ryman Healthcare (RYM) was divested.

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

Key Fund Facts

Distributions

Calendar quarter

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 121.1% hedged.

Estimated annual fund charges

Wholesale: negotiated outside of fund

Buy / Sell spread:	Strategy Launch	Strategy size
0.20% / 0.20%	February 2010	\$44.4m

Compliance

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

Contact Us

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