

NIKKO AM PROPERTY STRATEGY

Applies to: Nikko AM Wholesale Property Fund

Market Overview

- Global equity markets mostly posted strong returns for the quarter while Inflation continues to be relatively high in a number of economies. There is a focus on what response Central Banks will take given the high inflation numbers.
- The United States S&P 500 index rose 10.7%, the Japanese Nikkei 225 index lost 2.2%, the UK FTSE 100 index increased 4.2%, the Australian ASX 200 index added 2.1% and the MSCI World index ended the quarter up 7.0%.
- The S&P/NZX Real Estate index ended the quarter up 2.0% and outperformed the broader market with the S&P/NZX 50 index falling 1.7%. The Australian property index had a strong quarter, up 10.1%.

Fund Highlights

- The fund rose 1.2%, 0.8% behind the index return.
- A number of the fund's holdings reported results for the period ending September during the quarter with results generally in line with expectations.
- Stride Property raised \$120m to improve its balance sheet, Ingenia Communities raised \$475m, Vital Healthcare raised \$140m while Arvida raised \$330m to fund property acquisitions.
- Overweight positions in Centuria Industrial REIT, Garda Property and Waypoint REIT added value. Overweight positions in Summerset and Stride Property and an underweight position in Goodman Property detracted from value.

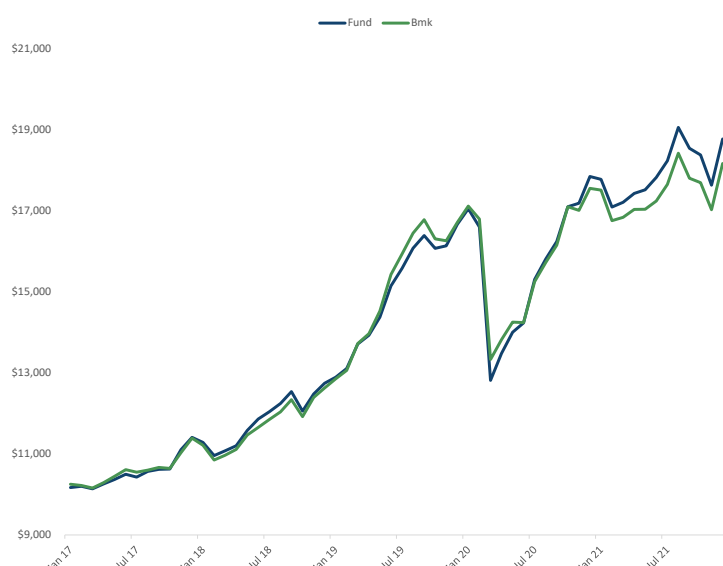
Performance

	One month	Three months	One Year	Three years (p.a)	Five years (p.a)	Ten years (p.a)
Wholesale ¹	6.47%	1.26%	5.19%	13.78%	13.43%	13.82%
Benchmark ²	6.69%	2.03%	3.49%	12.89%	12.68%	13.25%

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.

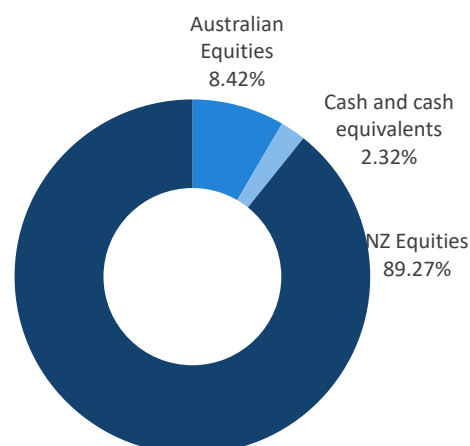
Overview

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					
Centuria Industrial	OW	Stride Property	OW	Goodman Property Ltd	16.55%	Property for Industry Ltd	6.87%
Garda Property	OW	Summerset Ltd	OW	Precinct Properties Ltd	14.56%	Investore Property Ltd	6.30%
Waypoint Reit	OW	Goodman Property	UW	Argosy Property Ltd	12.85%	Vital Healthcare Property	5.11%
OW: overweight; UW: underweight; NH: no holding.				Kiwi Property Ltd	12.07%	Summerset Ltd	2.32%
				Stride Stapled	11.08%	Centuria Industrial	2.09%
				Number of holdings			17

Market Commentary

Despite the rapid spread of the Omicron COVID-19 variant, global equity markets mostly posted strong returns for the quarter. Inflation continues to be relatively high in a number of economies and as a result there is a focus on the response from Central Banks. The Reserve Bank of New Zealand increased the official cash rate (OCR) twice over the quarter taking the OCR from 25 basis point to 75 basis points. The increasing interest rates, both the cash rate and longer bond yields should flow through and put pressure on property capitalisation rates.

Fund Commentary

The fund ended the quarter up 1.2% and 0.8% behind the index which was up 2.0%. The largest positive contributors to relative return were overweight positions in **Centuria Industrial REIT (CIP)**, **Garda Property (GDF)** and **Waypoint REIT (WPR)**. CIP rose 13.5% (in AUD) as it announced a strong portfolio revaluation, up 9.6% over the last six months. GDF also benefited from strong property revaluations and ended the quarter up 17.8% (in AUD). WPR rose 4.4% (in AUD) following the completion of a capital return and share consolidation.

The largest detractors from relative performance were overweight positions in **Summerset (SUM)** and **Stride Property (SPG)** and an underweight position in **Goodman Property (GMT)**. A number of retirement businesses reported earnings during the quarter which highlighted increasing costs, in particular for staff. This, along with some negative sentiment around the housing market outlook saw SUM fall 9.9%. SPG dropped 12.3% after announcing a heavily discounted capital raising during the quarter. GMT rose 7.3%, outperforming the index as industrial property continues to see good revaluation gains.

Key portfolio changes during the quarter included adding **Arvida (ARV)** to the portfolio through its capital raising along with adding to its positions in **Vital Healthcare (VHP)**, SPG and **Ingenia Communities (INA)** through their respective capital raisings along. Small reductions were made to positions in GMT, GDF, CIP and **New Zealand Rural Land Company (NZL)**.

(**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 92.1% hedged.

Exclusions Securities that conduct activities listed on the Schedule to Cluster Munitions Prohibition Act 2009. Tobacco manufacturers.

Restrictions Tobacco stocks, 'controversial weapons', fossil fuels. For more information, please refer to the Statement of Investment Policy and Objectives (SIPO) which can be found on our website <https://www.nikkoam.co.nz/invest/retail>.

Estimated annual fund charges
Wholesale: negotiated outside of fund

Buy / Sell spread: 0.20% / 0.20% **Strategy Launch** February 2010 **Strategy size** \$45.2m

Compliance

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

Contact Us

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