

Factsheet 31 August 2022

NIKKO AM PROPERTY STRATEGY

Applies to: Nikko AM Wholesale Property Fund

Market Overview

- Global equity markets were mixed during August driven by earnings season and bond yield movements.
- Over the month the US 10-year bond yield rose 54bps, the New Zealand 10-year yield increased 56bps while the Australian 10-year ended up 54bps.
- The United States S&P 500 index fell 4.2%, the Japanese Nikkei 225 index rose 1.0%, the UK FTSE 100 index lost 1.9%, the Australian ASX 200 index gained 1.2% and the MSCI World index ended the month down 2.3%.
- The S&P/NZX Real Estate index ended the month down 0.7% and behind the broader market with the S&P/NZX 50 index gaining 1.0%. The Australian property index fell 3.6%.

Fund Highlights

- The fund fell 0.8%, 0.1% behind the index return.
- It was a busy month with companies reporting results for the period ending June.
- Underweight positions in Vital Healthcare and Precinct and an overweight in Argosy added value.
- Overweight positions in Ingenia Communities and Dexus Industria REIT and an underweight in Property for Industry detracted from value.

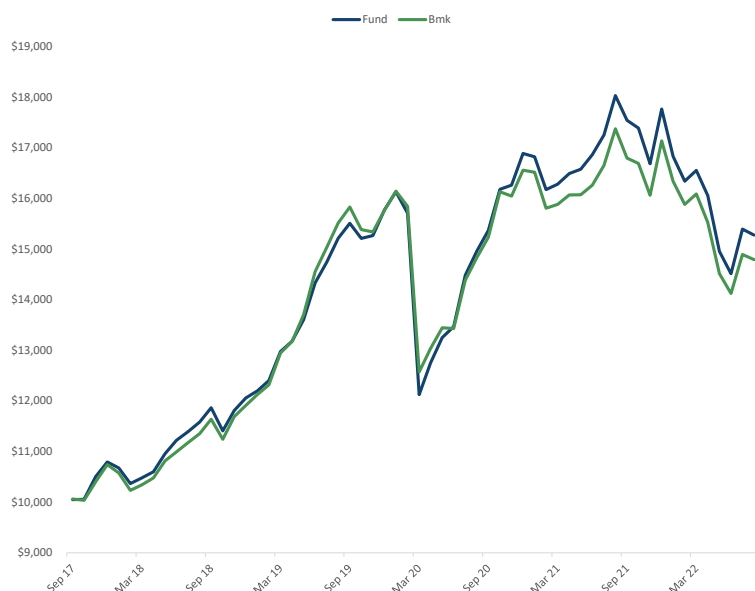
Performance

	One month	Three months	One Year	Three years (p.a)	Five years (p.a)	Ten years (p.a)
Wholesale ¹	-0.77%	2.15%	-15.28%	0.14%	8.84%	10.56%
Benchmark ²	-0.70%	1.88%	-14.89%	-1.58%	8.14%	10.07%

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 sectors. Experienced 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.

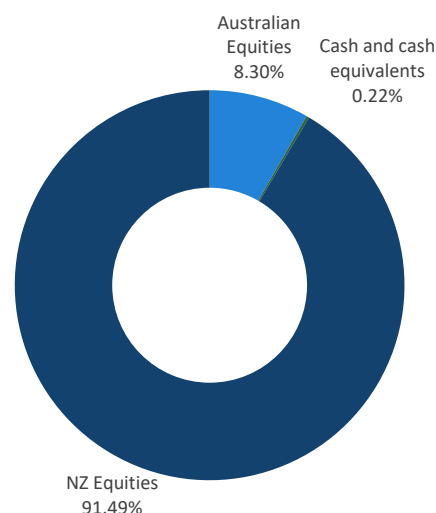
Overview

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 (month)				Top 10 holdings			
What Helped		What Hurt					
Vital Healthcare Property	UW	Property for Industry	UW	Goodman Property Trust	17.49%	Vital Healthcare Property	8.55%
Precinct Properties Ltd	UW	Dexus Industria	OW	Precinct Properties	13.47%	Property For Industry Ltd	7.71%
Argosy Property Ltd	OW	Ingenia Ltd	OW	Kiwi Property Group	12.55%	Investore Property Ltd	6.69%
OW: overweight; UW: underweight; NH: no holding.				Argosy Property Limited	12.31%	Waypoint REIT	2.05%
				Stride Stapled Grp	10.96%	Ingenia Communities	1.57%
				Number of holdings			17

Market Commentary

Global equity markets were mixed during August driven by earnings season and bond yield movements. While company earnings results were generally as expected, labour availability, increasing wages and rising interest rates are the key issues that companies are having to manage. Central banks continue their battle against inflation with cash rate hikes. Both the Reserve Bank of Australia and Reserve Bank of New Zealand increased their official cash rates by 50 basis points. Bond yields continue to be volatile with 10-year government bond yields for New Zealand, Australia and the United States up 56bps, 54bps and 54bps respectively. Interest rate hedging was a focus for investors when looking at property results as lower hedging meant the higher interest rates had a larger impact on earnings. We saw a number of property companies in Australia forecast reduced distributions on the back of higher interest costs.

Fund Commentary

The fund ended the month down 0.8% and 0.1% behind the index which was down 0.7%. The largest positive contributors to relative return were underweight positions in **Vital Healthcare** (VHP) and **Precinct** (PCT) and an overweight in **Argosy** (ARG). Both PCT and VHP reported results during the month with forecasts highlighting the impact of increasing rates on distributions. VHP has relatively low gearing which means that rate increases flow through to earnings quicker. PCT fell 5.6% while VHP was down 4.1%. ARG rose 1.9% on no specific news. The largest detractors from relative performance were overweight positions in **Ingenia Communities** (INA) and **Dexus Industria REIT** (DXI) and an underweight in **Property for Industry** (PFI). While INA's result was in line with expectations, it continues to be impacted by sentiment around the residential housing market and ended the month down 7.0% (in AUD). While DXI's result was good, guidance for the dividend in the year ahead is lower than last year as interest costs eat into earnings. DXI lost 8.6% (in AUD) over the month. PFI reported a good result and rose 2.9%.

Key portfolio changes during the month included adding to the funds position in GMT.

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

Key Fund Facts

Distributions Calendar quarter	Estimated annual fund charges
	Wholesale: negotiated outside of fund
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 98.1% hedged.	Buy / Sell spread: 0.20% / 0.20%
	Strategy Launch February 2010
	Strategy size \$37m
Exclusions Securities that conduct activities listed on the Schedule to Cluster Munitions Prohibition Act 2009.	
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 .	

Compliance

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

Contact Us

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