

# NIKKO AM PROPERTY STRATEGY

Applies to: Nikko AM Wholesale Property Fund

## Market Overview

- Global equity markets had a strong quarter on the back of lower-than-expected inflation in the United States and the prospect of smaller than expected increases in the Federal Reserve's funds rate.
- The United States S&P 500 index rose 7.1%, the Japanese Nikkei 225 index added 0.6%, the UK FTSE 100 index gained 8.1%, the Australian ASX 200 index increased 9.4% and the MSCI World index ended the quarter up 7.4%.
- The S&P/NZX Real Estate index ended the quarter down 3.4% and behind the broader market with the S&P/NZX 50 index gaining 3.8%. The Australian property index rose 11.6%.

## Fund Highlights

- The fund fell 1.4%, 2.0% ahead of the index return.
- A number of the fund's holdings reported earnings for the period ended September.
- For the first time in many years property securities are reporting capitalisation rate expansion and portfolio valuation declines.
- Overweight positions in Dexus Industria REIT and Waypoint REIT and an underweight position Winton Land added value.
- Underweight positions in Goodman Property and Kiwi Property and an overweight in Stride Property detracted from value.

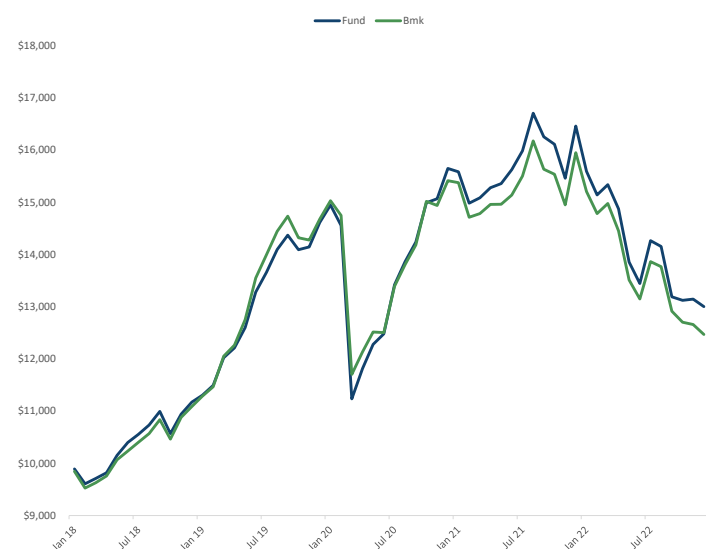
## Performance

|                        | One month | Three months | One Year | Three years (p.a) | Five years (p.a) | Ten years (p.a) |
|------------------------|-----------|--------------|----------|-------------------|------------------|-----------------|
| Wholesale <sup>1</sup> | -1.10%    | -1.42%       | -21.01%  | -3.82%            | 5.39%            | 9.00%           |
| Benchmark <sup>2</sup> | -1.49%    | -3.44%       | -21.82%  | -5.29%            | 4.51%            | 8.37%           |

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, \$1,000 invested<sup>1, 2</sup>



## 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 Schrodgers 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 Nikko in 2006.

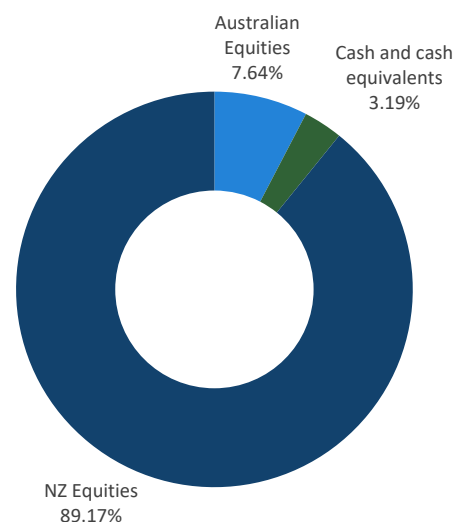
## Overview

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 (% of fund) |       |                           |           |
|--|----|---------------------|----|-----------------------------|-------|---------------------------|-----------|
| What Helped                                      |    | What Hurt           |    |                             |       |                           |           |
| Winton Land Ltd                                  | NH | Stride Property     | OW | Goodman Property Trust      | 17.87 | Vital Healthcare Property | 7.92      |
| Waypoint REIT                                    | OW | Goodman Property    | UW | Precinct Properties New     | 13.56 | Property for Industry     | 7.43      |
| Dexus Industria REIT                             | OW | Kiwi Property Group | UW | Kiwi Property Group         | 12.33 | Investore Property        | 6.68      |
| OW: overweight; UW: underweight; NH: no holding. |    |                     |    | Argosy Property Limited     | 12.01 | Waypoint REIT Fully Paid  | 1.95      |
|  |    |                     |    | Stride Stapled Grp          | 9.50  | Ingenia Communities       | 1.74      |
|  |    |                     |    | <b>Number of holdings</b>   |       |                           | <b>16</b> |

## Market Commentary

Global equity markets are jumping at any sign that interest rates won't peak as high as initially expected. United States inflation came in at 7.7% which was below what the market was expecting. This led to the Nasdaq leaping more than 7% and the S&P 500 more than 5% on the day. Despite what markets are thinking, inflation remains high and central banks are focused on getting on top of it and as a result cash rates continue to be increased. The US Federal Reserve, the Bank of England, the European Central Bank and the Reserve Bank of New Zealand all increased their cash rates by 1.25% while the Reserve Bank of Australia increased their cash rate by 0.75%. The New Zealand official cash rate is now 4.25% and the RBNZ is signalling that it will peak at 5.5%. Increasing rates are not supportive of markets in general but more specifically property where it flows through to interest costs and property values.

## Fund Commentary

The fund ended the quarter down 1.4% and 2.0% ahead of the index which was down 3.4%. The largest positive contributors to relative return were overweight positions in **Dexus Industria REIT (DXI)** and **Waypoint REIT (WPR)** and an underweight position Winton Land (WIN). DXI sold two office assets during the quarter which had low occupancy and moves DXI closer to having only industrial and logistics properties. DXI rose 24.1% (in AUD) over the quarter. Despite reporting a portfolio devaluation of 4.4%, WPR rose 17.7% (in AUD) during the period. WIN fell 38.3% as it continues to be impacted by falling house prices and increasing interest rates.

The largest detractors from relative performance were underweight positions in **Goodman Property (GMT)** and **Kiwi Property (KPG)** and an overweight in **Stride Property (SPG)**. GMT's industrial exposure continues to find investor support and rose 1.3% over the quarter. KPG reported a portfolio revaluation which declined 5.8% or \$213m. Retail sales have rebounded strongly from COVID impacts and KPG ended the period up 1.3%. While SPG's distributable earnings guidance is in line with market expectations, SPG announced a dividend cut and potential asset sales to improve its balance sheet and ended down 13.5%.

Portfolio changes over the month included adding to positions in **Asset Plus (APL)** and **GMT** while reducing positions in **Centuria Industrial REIT (CIP)**, **DXI**, and **WPR**. The fund's position in Charter Hall (CHC) 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 89.1% hedged.

**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>.

### Estimated annual fund charges

Wholesale: negotiated outside of fund

**Buy / Sell spread:** 0.20% / 0.20%    **Strategy Launch** February 2010    **Strategy size** \$33.8m

## Compliance

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

## Contact Us

[www.nikkoam.co.nz](http://www.nikkoam.co.nz) | [nzenquiries@nikkoam.com](mailto:nzenquiries@nikkoam.com)

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