

# Nikko AM Property Strategy

Monthly Update 31 December 2023

Applies to the Nikko AM Wholesale Property Fund.

## Market Overview

- Global equity markets were weak in October before staging a strong recovery over November and December as bond yields fell sharply.
- The United States S&P 500 index rose 11.2%, the Japanese Nikkei 225 added 5.0%, the UK FTSE 100 index gained 1.7%, the Australian ASX 200 index increased 8.4% and the MSCI World index ended the quarter up 9.4% (in local terms).
- The S&P/NZX Real Estate index rose 6.8% and ahead of the broader market with the S&P/NZX 50 up 4.3%. The Australian property index had a very strong quarter, up 16.5%.

## Fund Highlights

- The fund rose 6.62%, 18 basis points behind the index return.
- A number of the fund's holdings reported results for the period ending September during the quarter. Results were generally in line with expectations.
- Underweight position in Property for Industry and overweight positions in Charter Hall Group and Stride Property added value. Overweight positions in Investore Property and Argosy Property and an underweight position in Precinct Properties detracted from value.

## Performance

	One month	Three months	One year	Three years (p.a.)	Five years (p.a.)	Ten years (p.a.)
<b>Wholesale<sup>1</sup></b>	7.62%	6.62%	5.53%	-4.29%	4.19%	8.91%
<b>Benchmark<sup>2</sup></b>	7.37%	6.80%	6.49%	-4.85%	3.67%	8.58%

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

2. Benchmark: Benchmark: from 1/6/2023 S&P/NZX All Real Estate Sector Group Gross with Imputation Credits Index. No tax or fees.

## Portfolio Manager

**Michael Sherrock,  
Head of Equities**



Michael joined Nikko AM in 2006 and covers the Property, Energy, Materials, Metals and Mining and Media sectors. He has over 20 years' experience and previously held roles with Schroders UK and ASB Group Investments. Michael is a CFA charterholder and holds a Bachelor of Commerce degree from the University of Auckland.

## 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.

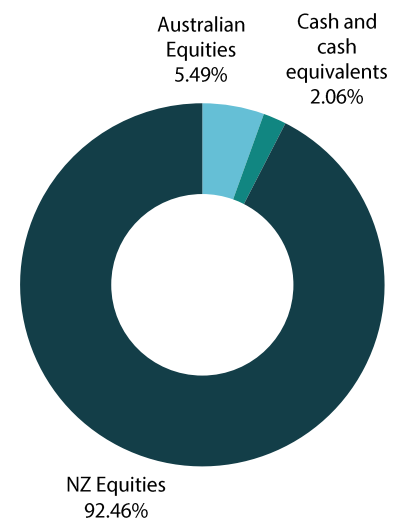
## Objective

The fund aims to outperform the benchmark return by 1.5% per annum before fees, expenses and taxes over a rolling three-year period.

## Five Year Cumulative Performance, \$10,000 invested<sup>1,2</sup>



## Asset Allocation



Attribution To Performance ((month)			
What Helped:		What Hurt:	
Property for Industry	UW	Investore Property	OW
Stride Property	OW	Precinct Properties	UW
Charter Hall	OW	Argosy Property	OW

OW: overweight; UW: underweight; NH: no holdings

Top 10 Holdings (% of fund)			
Goodman Property	18.38	Vital Healthcare Property	9.31
Precinct Properties	13.35	Property for Industry	7.15
Kiwi Property	13.01	Investore Property	5.44
Argosy Property	11.19	Waypoint REIT	1.71
Stride Stapled	10.24	Ingenia Communities	1.49
		<b>Number of holdings</b>	<b>18</b>

## Market Commentary

Global equity markets dropped in October as economic data and the Gaza conflict led to a flight to quality and safety which drove bond yields higher. November and December saw markets rebound strongly as bond yields dropped on signs that rate hikes might be over in the United States and the Federal Reserve indicated a number of rate cuts in 2024. Interest rate moves and expectations continue to dominate the equity market rather than earnings results and the outlook for earnings. The quarter also saw the New Zealand election which after a number of weeks of waiting for the final result and then several weeks of negotiation saw a right leaning coalition form government. The property sector continues to see portfolio devaluations due to the high interest rate environment albeit the stocks performed well over the quarter, especially Australian property on the back of the large move down in bond yields.

## Fund Commentary

The largest positive contributors to the fund's relative return were overweight positions in **Charter Hall Group** (CHC) and **Stride Property** (SPG) and an underweight position in **Property for Industry** (PFI). CHC had a strong performance as bond yields fell and we took advantage of that to exit our position. Our exit of CHC during the quarter provided a 16.6% (in AUD) return. SPG produced an earnings result in line with expectations and recovered its underperformance from the previous quarter, ending up 15.4%. PFI announced a number of acquisitions and divestments albeit nothing particularly material. PFI rose 1.0% over the quarter.

The largest detractors from relative performance were overweight positions in **Investore Property** (IPL) and **Argosy Property** (ARG) and an underweight position in **Precinct Properties** (PCT). While IPL's result was in line with expectations, it cut its dividend guidance as it looks to conserve capital to protect its balance sheet and allow for likely tax changes that will see more tax payable in the year ahead. IPL fell 3.4% over the quarter. ARG came under pressure as investors weighed up the possibility that ARG will be removed from an index which would result in forced selling of the stock. ARG rose 1.7% over the quarter but under-performed the index and as a result our overweight position detracted from relative value. PCT announced several property transactions during the period including securing the Downtown Car Park development site. PCT ended the period up 11.7%.

Portfolio changes over the quarter included adding to our positions in **Ryman Healthcare** (RYM), PCT and **Kiwi Property** (KPG). A new position in **Summerset** (SUM) was established. Positions in ARG and **Goodman Property** (GMT) were reduced. The funds positions in CHC and Centuria Industrial REIT (CIP) were divested.

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

## Key Fund Facts

<b>Estimated annual fund charges (incl. GST)</b>	<b>Hedging:</b> 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 84.9% hedged.	<b>Strategy Launch:</b>	February 2010
<b>Wholesale:</b> Negotiated outside of the unit price.	<b>Exclusions:</b> Controversial weapons (including but not limited to cluster munitions and chemical, biological and nuclear weapons).	<b>Strategy size:</b>	\$34.4m
<b>Distributions:</b>	<b>Restrictions:</b> Tobacco stocks, fossil fuels. For more information, please refer to the Statement of Investment Policy and Objectives (SIPO) on our website <a href="https://www.nikkoam.co.nz/invest/retail">https://www.nikkoam.co.nz/invest/retail</a> .	<b>Buy / Sell spread:</b>	0.20%/0.20%
<b>Wholesale:</b> Calendar quarter			

## Compliance

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

## Contact Us

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