

NIKKO AM PROPERTY STRATEGY

Applies to: Nikko AM Wholesale Property Fund

Market Overview

- Global equity markets were volatile over the quarter, initially selling off aggressively over January before drifting generally down over February. This occurred as markets fixated on firstly COVID-19, then inflation concerns, company earnings and the invasion of Ukraine.
- Somewhat surprisingly, even with the war in Ukraine confronting markets and the resulting oil (and other commodities) spiking, plus central banks acknowledging inflationary concerns, markets generally rallied in March.
- NZ 10-yr Government Bond sold off from 2.39% to 3.23% in response to the inflation outlook.
- Overall for the quarter, the United States S&P 500 index fell 5.0%, the Japanese Nikkei 225 index lost 3.4%, but the UK FTSE 100 index gained 1.8% along with the Australian ASX 200 index which rose 2.2%. The MSCI World index ended the quarter down 4.8%. The S&P/NZX Real Estate index ended the quarter down 6.1% and outperformed the broader market with the S&P/NZX 50 index falling 6.9%. The Australian property index lost 6.7%.

Fund Highlights

- The fund fell 6.8% over the quarter, 0.7% behind the index return
- A number of the fund's holdings reported results for the period ending December during the quarter.
- Overweight positions in Garda Property, Dexus Industria REIT and Stride Property added value. Overweight positions in Summerset and Ingenia Communities and an underweight position in Vital Healthcare detracted from value.

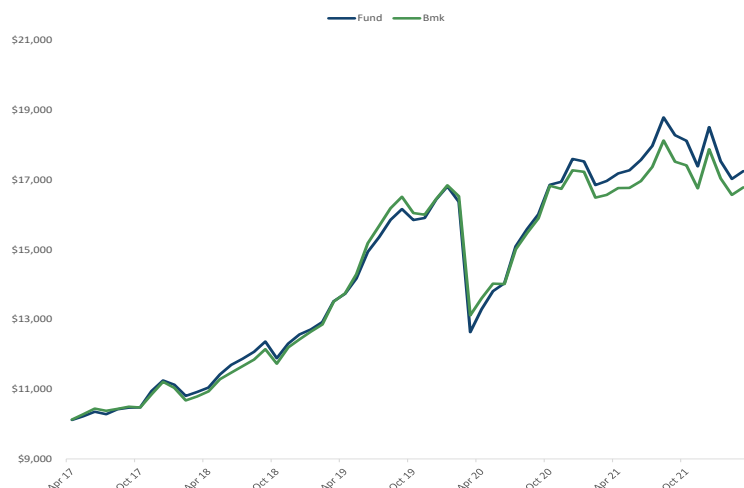
Performance

	One month	Three months	One Year	Three years (p.a)	Five years (p.a)	Ten years (p.a)
Wholesale ¹	1.30%	-6.82%	1.66%	8.45%	11.52%	12.16%
Benchmark ²	1.31%	-6.11%	1.30%	7.51%	10.92%	11.66%

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.

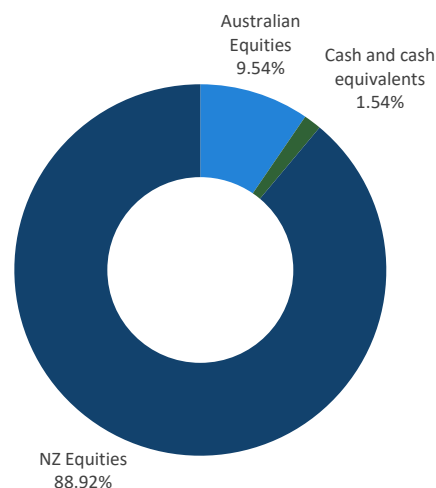
Overview

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			
What Helped		What Hurt					
Stride Property	OW	Vital Healthcare	UW	Goodman Property Trust	16.92%	Property for Industry	7.11%
Garda Property	OW	Ingenia Communities	OW	Precinct Properties New	14.77%	Investore Property Ltd	6.15%
Dexus Industria REIT	OW	Summerset Group	OW	Kiwi Property Group	12.31%	Vital Healthcare Property	5.89%
OW: overweight; UW: underweight; NH: no holding.				Argosy Property Ltd	12.28%	Centuria Industrial REIT	2.19%
				Stride Stapled	10.41%	Dexus Industria REIT	2.07%
						Number of holdings	18

Market Commentary

Global markets much like their home domiciles, are all in different phases of dealing with or responding to COVID-19 variants and economic activity, quantitative easing unwind and inflationary concerns. Hence market returns are varied. 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. With company results concluded, our focus turned to assessing cost pressures and pricing power together with the impacts of constrained supply chains. The market and Nikko are also highly focused on ‘reopening beneficiaries’. A watchful eye will be kept on property valuers’ response to rising rates and the potential negative flow through to values. The positive side of high inflation is where rents are linked to CPI which will flow through to higher rent for landlords.

Fund Commentary

The fund ended the quarter down 6.8% and 0.7% behind the index which was down 6.1%. The largest positive contributors to relative return were overweight positions in **Stride Property** (SGP), **Garda Property** (GDF) and **Dexus Industria** REIT (DXI). GDF rose 2.9% (in AUD), supported by solid revaluation gains, good leasing outcomes and an industrial development pipeline. DXI reported a result largely as expected during the quarter and is conducting an on-market buyback of their securities supported by relatively low gearing and trading below asset backing. DXI ended the period down 2.2% (in AUD). Although SPG fell 4.3% over the quarter, it outperformed the index and as a result added relative value due to the fund’s overweight position.

The largest detractors from relative performance were overweight positions in **Ingenia Communities** (INA) and **Summerset** (SUM) and an underweight position in **Vital Healthcare** (VHP). Despite SUM having good unit sales numbers over the year and a positive outlook, it continues to be impacted by sentiment around the housing market. SUM ended the quarter down 13.5%. INA reported a result that was slightly behind market expectations although has maintained its full year earnings guidance. INA fell 17.8% (in AUD) over the quarter. VHP benefited from inclusion in a global index which meant passive index trackers were forced to buy VHP securities. VHP rose 4.0% over the period.

Key portfolio changes during the quarter included adding **Charter Hall** (CHC) to the portfolio. Positions in INA and **Goodman Property** (GMT) were added to while positions in SPG, SUM and **Precinct Properties** (PCT) were reduced. (**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%.

Buy / Sell spread:
0.20% / 0.20%

Strategy Launch February 2010
Strategy size \$40.8m

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>.

Compliance

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

Contact Us

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