Listed Property Fund

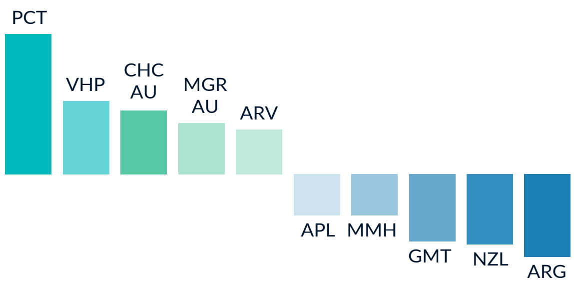
Investor Factsheet for the quarter ended 31 March 2024

	Quarter Performance	1 year	3 years*	5 years*	Since Inception*	Since Sep 2019*
Gross Fund Return**	0.21%	5.41%	-2.26%	3.33%	7.03%	-0.54%
S&P/NZX 50 All Real Estate Gross with Imputation***	-0.07%	4.22%	-3.59%	1.91%	7.14%	-2.33%
Out/under performance	**0.28%**	**1.20%**	**1.32%**	**1.42%**	**-0.11%**	**1.79%**
Tracking error	n/a	1.20%	1.87%	2.09%	4.09%	2.13%
Information ratio	n/a	1.00	0.71	0.68	-0.03	0.84
Sharpe ratio	n/a	-0.02	-0.43	0.07	0.37	-0.03

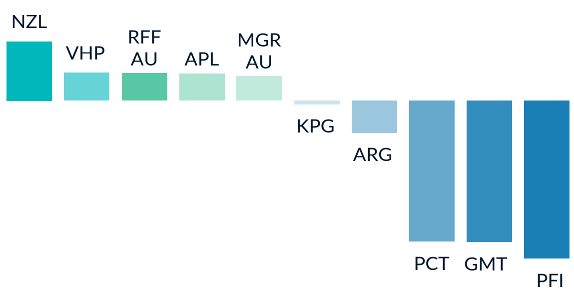
Key Fund Facts as at 31 March 2024

Fund Name	Listed Property Fund	**Risk Indicator**	1 2 3 4 **5** 6 7
Inception Date	26/06/2008	**Market Index**	S&P/NZX All Real Estate Gross with Imputation
Fund Value (NZD)	$32,802,901	**Unit Price**	$2.3011
		Annual Fund Charge (ex-GST)	1.15%

ATTRIBUTION (ROLLING 4QS TO 31 MARCH 2024)



PORTFOLIO CONVICTION (AS AT 31 MARCH 2024)



The fund in its macro context

Following the “Fed pivot” in December 2023, when interest rates plummeted, we saw interest rates once again grind higher during the March quarter. The bellwether New Zealand Government 10-year bond yield increased from 4.4% to 4.6% but is still 1% off the 5.6% peak of October 2023. After a spectacular rally in November and December the interest rate sensitive NZ REIT Index took a pause in the March quarter falling -0.07% and reversing its recent run of outperformance versus New Zealand equities.

The Australian REIT sector materially outperformed New Zealand during the first quarter of 2024, although this was primarily driven by very strong performance from Goodman Group as investors excitement levels heightened around its data centre/AI opportunity.

In New Zealand, investors are becoming more comfortable we may be nearing the end of the cap rate hiking cycle meaning the sector may avoid a raft of capital raisings that many thought were inevitable.

Portfolio attribution

For the quarter to 31 March the Listed Property Fund delivered a gross return of 0.21%, modestly outperforming the funds’ market index return of -0.07%.

For the four quarters to 31 March the fund delivered a gross return of 5.41%, comfortably outperforming the funds’ market index return of 4.22%.

Our largest contributor to annual performance came from our underweight position in Precinct Properties (PCT)

* Annualised

** Gross Fund Returns are calculated before deduction of taxes and fund charges but after deduction of trading expenses and including imputation credits where applicable. Market index returns do not have any deductions for fund charges, trading expenses or tax.

***For periods prior to April 2018, the market index/benchmark return used is the S&P/NZX All Real Estate Gross Index without Imputation.

as Haumi sold its ~13% stake in the Company. We are becoming more constructive on this name as the share price has weakened and management continue to prove its relatively new funds management model. Exposure to premium, green office assets, and the limited supply of such assets in New Zealand, should see PCT relatively protected in an extended macro downturn. Approximately 5% of the Listed Property Fund is invested in Australian real estate and the material outperformance of Australia over New Zealand added to performance in the last four quarters.

A material detractor from performance in the year to 31 March was our holding in New Zealand Rural Landco (NZL). The NZL share price suffered from a series of poorly timed capital raises in quick succession. NZL also cancelled its dividend to de-gear the balance sheet. With the introduction of a capital partner implying a value materially higher than the share price, and an improving dairy sector thematic, we remain confident of a re-rate in this name. Significant rent reviews to market (that stick), and a reinstatement of the dividend should aide sentiment.

Portfolio position and conviction

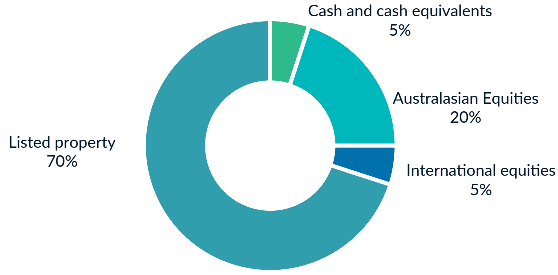
Sector valuations remain bifurcated. While sector gross yield spreads vs. long bonds have largely settled at ~200 basis points over the last few months there remains a wide range within the sector. Property for Industry (PFI) and Goodman Property Trust (GMT) are closer to zero (in fact GMT is negative), Vital Healthcare sits around the 2% average, with the remaining five (of the “big eight” property companies) sitting around 4%. Industrial yields remain low on expectations of continued distribution growth, however it is doubtful the level of growth will be sufficient to justify the current premiums. The move by several players into funds management, if executed well, could provide earnings upside for the fund.

There is some valuation support on the basis that the sector still trades at a material discount (~15% or more) to NTA. Key risks to the downside include weakening economic activity seeing rental growth slow and/or vacancies rise. Interest rate movements in either direction are likely to drive much of the sector’s short-term performance. Those trading at the largest discount to NTA tend to be the smaller more highly levered names to which we have an overweight exposure. If these names can muddle through the last of the cap rate expansion by continuing to sell assets without raising capital then we would expect these to re-rate most strongly.

Conclusion

The portfolio delivered in line with the index in the most recent March quarter, with some of the best performers over the last 12 months being positions held for a long period of time. We acknowledge the quality of some of our largest underweights (GMT, PCT, and PFI) but will not chase these names at all cost. Valuation is key and we continue to focus on risk-adjusted returns. We are prepared to hold a position (and add to it) for a long period of time if we believe the investment thesis remains intact.

TARGET ASSET ALLOCATION



TOP 10 FUND HOLDINGS AT QUARTER END

Security	Weight
Goodman Property Trust	18.9%
Precinct Properties New Zealand Limited	14.3%
Kiwi Property Group Limited	12.9%
Vital Healthcare Property Trust	11.5%
Argosy Property Limited	8.2%
Stride Property Group	7.7%
Property For Industry Limited	6.5%
Investore Property Limited	3.9%
New Zealand Rural Land Company	3.0%
JP Morgan Chase & Co. AUD Cash Deposit	1.5%
Major holdings as % of total portfolio	**88.4%**

Investment Philosophy and Thesis

Octagon is an active investment manager. Our investment philosophy focuses on developing a repeatable process that systematically looks for short-to-medium term inefficiencies in market pricing of securities with a solid economic basis and a good management team to deliver long term, measurable alpha.

The most common and persistent market inefficiencies we find are:

- excessive focus on near term earnings
- market dislocations and liquidity events
- temporary governance failures
- irrational investor behaviour

For Octagon, “value” means not overpaying for the promise of future growth by developing a fundamental understanding of a business, its financial metrics, return on invested capital and then scenario testing the investment model under different macro conditions.

Portfolio Manager

Jason Lindsay, CA
Head of Equities

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