# Listed Property Fund

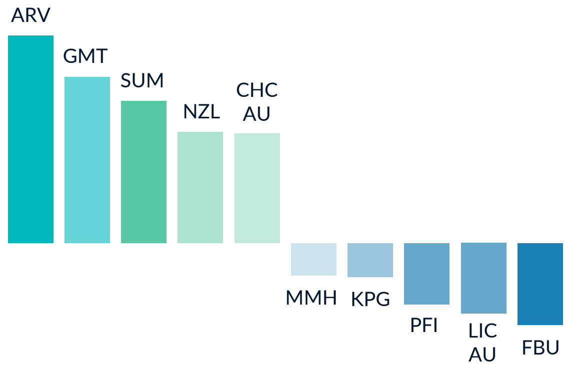
**Investor Factsheet for the quarter ended 31 December 2024**

| | Quarter Performance | 1 year | 3 years* | 5 years* | Since Inception* | Since Sep 2019* |
|---|---|---|---|---|---|---|
| **Gross Fund Return**** | -1.57% | -1.55% | -5.70% | -1.05% | 6.59% | -0.80% |
| S&P/NZX 50 All Real Estate Gross with Imputation*** | -1.77% | -2.67% | -6.82% | -2.54% | 6.63% | -2.49% |
| **Out/under performance** | **0.20%** | **1.12%** | **1.12%** | **1.49%** | **-0.05%** | **1.69%** |
| Tracking error | n/a | 1.43% | 1.89% | 2.08% | 4.01% | 2.06% |
| Information ratio | n/a | 0.78 | 0.59 | 0.72 | -0.01 | 0.82 |
| Sharpe ratio | n/a | -0.54 | -0.77 | -0.25 | 0.32 | -0.23 |

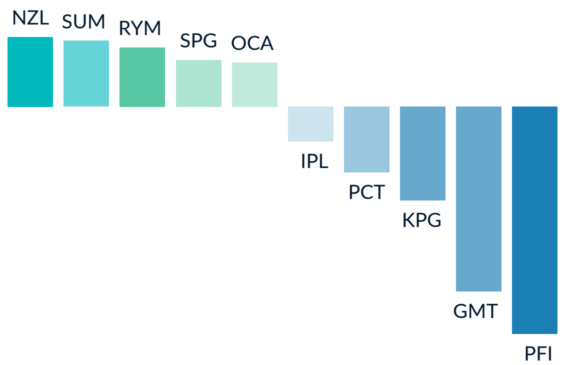
### Key Fund Facts as at 31 December 2024

| | | | |
|---|---|---|---|
| **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)** | $58,426,278 | **Unit Price** | $2.2325 |

ATTRIBUTION (ROLLING 4QS TO 31 DECEMBER 2024)




PORTFOLIO CONVICTION (AS AT 31 DECEMBER 2024)




## The fund in its macro context

In the December quarter the bellwether New Zealand Government 10-year bond yield increased slightly despite the Reserve Bank of New Zealand (RBNZ) continuing its long-awaited cutting cycle with the official cash rate (OCR) being cut to 4.25% by quarter end. Long-term rates, however, are influenced by broader market factors including global yields, growth and inflation expectations, leading to a divergence and steepening of the yield curve. Longer term interest rates are more relevant for the property sector and as a result we saw softness during the quarter.

Despite no immediate prospect of lower interest rates in Australia, Australian REITs once again outperformed New Zealand during the fourth quarter delivering a 4.7% return, with a number of the more traditional large cap stocks (Scentre Group, Goodman Group, GPT Group, Stockland, and Charter Hall Group) delivering above-sector-average returns.

In New Zealand, the most recent set of corporate results were largely as expected with most companies seeing slight vacancy rise, softening tenant demand and slowing market rent growth, reflecting the economic backdrop. Debt costs, and asset values and cap rates, appear to have stabilised. Good cost control was a pleasing feature for some in the most recent reporting round. As expected a higher tax bill was reported due to changes in government policy around depreciation. Transaction activity remains low, and for those with fund manager aspirations seeking external capital, progress is slow.

* 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. For periods prior to April 2018 the Gross Funds Returns do not include imputation credits.

***For periods prior to April 2018, the market index/benchmark return used is the S&P/NZX All Real Estate Gross Index without Imputation. Market index returns do not have any deductions for fund charges, trading expenses or tax.

## Portfolio attribution

For the quarter to 31 December the Listed Property Fund delivered a gross return of -1.57%, modestly outperforming the funds' market index return of -1.77% by 0.20%.

For the four quarters to 31 December the Fund delivered a gross return of -1.55%, outperforming the funds' market index return of -2.67% by 1.12%.

Our largest contributor to four quarter performance came from our out of index positions in Arvida Group (subject to takeover and covered in previous quarterlies) together with our underweight position in Goodman Property Trust, an out of index position in Summerset Group (SUM) and overweight position in New Zealand Rural Landco (NZL).

In 2024 NZL achieved several significant milestones that contributed to a reversal of recent poor performance. In early 2024 NZL sold a 25% stake in its land portfolio to Roc Partners for $44.2 million validating NZL's business model but also providing capital for future growth opportunities. NZL expanded its land holding by close to 20% with acquisitions in forestry and horticulture, and reported a much improved interim result in August 2024. The long-awaited CPI adjustment on the first dairy leases has passed, with NZL realising an 18.6% uplift on the last three years' inflation in the middle of FY24 with additional uplifts of this magnitude to flow through in FY25E. Dividends were restarted.

A material detractor from performance in the year to 31 December was our out of index position in Fletcher Building and very small position in Lifestyle Communities (LIC). LIC's operating profit decreased materially, attributed to a reduction in new home settlements, and increased pre-sales and marketing expenses for new projects initiated during the year. LIC also suffered from its overweight exposure to the Victoria property market, and in July residents at one of its Melbourne facilities lodged a claim with the Victorian Civil and Administrative Tribunal (VCAT), alleging that the Deferred Management Fee was excessive and not transparently disclosed. LIC's share price more than halved in the period under review.

## Portfolio conviction

In New Zealand industrial property yields remain low on expectations of continued dividend growth; however, it is doubtful the level of growth will be sufficient to justify the current premiums. Anecdotal evidence suggests that industrial rents have stalled, given rapidly deteriorating demand; elevated new stock completions and finally increased sub-leasing and back-fill activity. We continue to see more attractive opportunities outside of Industrial property. The office market remains bifurcated; as high-quality office space continues to be sought after at the expense of secondary office space but rent growth has slowed. Incentives across all markets are increasing.

Our highest conviction position on the long side remains NZL. After a challenging period, things are starting to come into place for NZL. With no surprises over the next 12 months, we expect the re-rate journey can continue as AFFO increases.

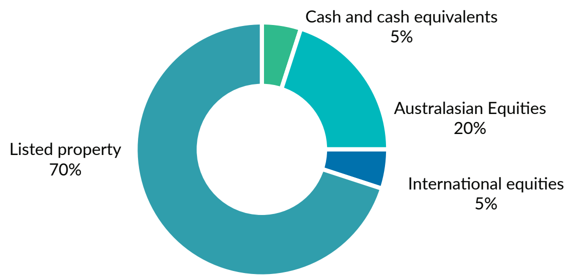
We have a preference for fund managers, particularly in Australia via Goodman Group and Charter Hall Group, but also in New Zealand via Stride Property. Attractive features include solid balance sheets with leverage to the cap rate and investment cycle through activity-based earnings. Capital and fund raising in this sector has been subdued but with interest rates on a downward track this may spark renewed activity.

A structural de-rate in the retirement village (RV) sector has removed heat from that service-heavy; property return-centric sector. Cash returns remain low (lack of maturity; high overheads) but we see it as remaining well positioned to deliver capital returns from development and growing cashflows from operations as they mature. The sectors are different and RV has issues (operations; overheads; gearing) but we believe the capital growth positioning makes it an attractive alternative to the LPV sector worth considering.

### TOP 10 FUND HOLDINGS AT QUARTER END

| Security | Weight |
|---|---|
| Precinct Properties New Zealand Limited | 18.1% |
| Goodman Property Trust | 18.0% |
| Kiwi Property Group Limited | 13.0% |
| Vital Healthcare Property Trust | 8.7% |
| Argosy Property Limited | 8.6% |
| Stride Property Group | 8.6% |
| Property For Industry Limited | 6.6% |
| Investore Property Limited | 2.9% |
| New Zealand Rural Land Company | 2.7% |
| ANZ transactional bank account | 1.9% |
| **Major holdings as % of total portfolio** | **89.0%** |

### TARGET ASSET ALLOCATION



### 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.

With the RBNZ well into its rate cutting cycle, the outlook is becoming more positive for the RV sector than it has been for some time. Falling interest rates bring improving mortgage affordability, posing upside risk for residential house prices and sales activity. Your fund has been adding to names in the sector in recent months.

We expect 2025 to be an inflection year for Australian Real Estate stocks, driven by the interest rate cut cycle which we expect to start in the first half of this year. This will likely generate increasing interest from generalist investors as they anticipate more stable cap rate and finance cost environment. Your fund has been adding across selected names in recent months.

## Conclusion

If sustained, the change in direction of interest rates should lead to further outperformance from the NZ REIT Index, in particular for the more 'beaten up' second tier names. This is despite fundamentals deteriorating and a challenging domestic macro backdrop for the listed property stocks to navigate. We will likely see pockets of increased vacancy and downward pressure on rent increases within the sector. Recent share price gains in the sector could make it more palatable for some of the more indebted names in the sector to consider raising capital, after a long period of underperformance valuation support is emerging. We remain cautious on the sector but acknowledge a faster interest rate cutting cycle should lead to continued outperformance.

## Portfolio Manager

**Jason Lindsay, CA**
Head of Equities

**Tobias Newton**
Associate Portfolio Manager

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