Listed Property Fund

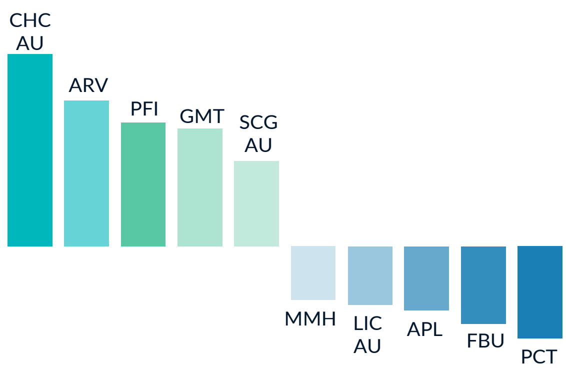
Investor Factsheet for the quarter ended 30 September 2024

	Quarter Performance	1 year	3 years*	5 years*	Since Inception*	Since Sep 2019*
Gross Fund Return**	9.26%	7.14%	-4.42%	-0.52%	6.79%	-0.52%
S&P/NZX 50 All Real Estate Gross with Imputation***	8.43%	5.83%	-5.63%	-2.27%	6.85%	-2.27%
Out/under performance	**0.84%**	**1.31%**	**1.21%**	**1.74%**	**-0.06%**	**1.74%**
Tracking error	n/a	1.55%	1.96%	2.11%	4.04%	2.11%
Information ratio	n/a	0.85	0.62	0.83	-0.01	0.83
Sharpe ratio	n/a	0.08	-0.62	-0.20	0.34	-0.20

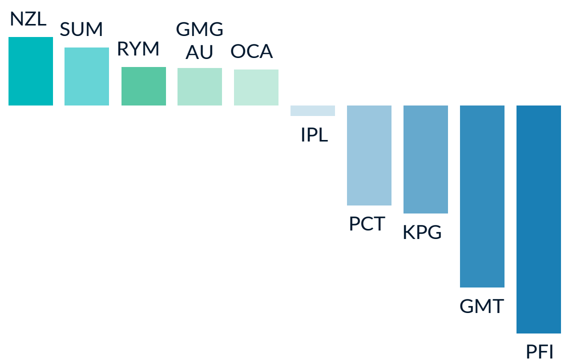
Key Fund Facts as at 30 September 2024

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)	$47,179,080	**Unit Price**	$2.2782

ATTRIBUTION (ROLLING 4QS TO 30 SEPTEMBER 2024)



PORTFOLIO CONVICTION (AS AT 30 SEPTEMBER 2024)



The fund in its macro context

Interest rates softened further in the September quarter with the bellwether New Zealand Government 10-year bond yield decreasing from 4.6% to 4.2%. In July the Reserve Bank of New Zealand (RBNZ) finally seemed to recognise that the domestic economy is very weak, signalling rate cuts may come sooner than previously forecast. The RBNZ followed through on its July rhetoric by reducing the OCR by 0.25% in August (and a further 0.5% in October) with more to come. On the back of this pivot the NZ REIT index added 8.43% for the quarter as investors cheered the prospect of lower interest rates.

Despite no immediate prospect of lower interest rates over the ditch, Australian REITs once again outperformed New Zealand during the September quarter delivering a 14.43% return, with Charter Hall Group (CHC) sharply higher and a number of the unloved asset owning REIT's also delivering strong returns.

In New Zealand, the most recent set of corporate results and guidance were largely in-line with expectations, though some outlook comments were tempered by the economic backdrop. While the Listed Property Vehicles that reported continued to print solid operational results, there were signs that the weaker economic backdrop is starting to impact listed portfolios. Small amounts of vacancy has crept into portfolios and market rent growth is slowing, particularly for industrial property. FY25 dividend guidance was largely flat on FY24, though expected increases in interest and tax bills means this was delivered through higher pay-out ratios.

* 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 30 September the Listed Property Fund delivered a gross return of 9.26%, outperforming the funds' market index return of 8.43%.

For the four quarters to 30 September the Fund delivered a gross return of 7.14%, outperforming the funds' market index return of 5.83%.

Our largest contributor to annual performance came from our out of index positions in CHC and Arvida Group (ARV) together with our underweight positions in industrial landlords Property for Industry (PFI) and Goodman Property Trust. CHC surprised the market with stronger-than-expected FY25 operating EPS guidance, despite assets under management headwinds, suggesting that it is seeing signs of transactional activity and investment opportunities pick up. This, combined with cost discipline, an attractive and well managed development pipeline, and better operating leverage, should set the group up for a strong earnings recovery over the next 2-3 years. Whilst many REIT peers are trying to build (new) fund management capabilities, we believe CHC's strong track record will allow it to outperform, something that is not yet fully reflected in the share price. ARV was subject to a knockout (~65% premium to last close) takeover bid which looks highly likely to complete, also providing a much-needed boost to the other flagging listed aged care stocks.

A material detractor from performance in the four quarters to 30 September was our underweight position in Precinct Properties (PCT) and a modest out of index position in Fletcher Building (FBU). We have become more constructive on PCT and took the opportunity of share price weakness in the previous quarter to close our larger underweight position, and we have continued to do so during this quarter. Exposure to premium, green office assets, and the limited supply of such assets in New Zealand, together with management continuing to prove-up its relatively new funds management model should see PCT relatively protected in an extended macro downturn.

FBU continued its horrific run of announcements with the company announcing a $700mn equity raise so it can pay down debt and manage challenging market conditions as the construction sector nears the bottom of its current cycle. With the balance sheet overhang removed and some tentative signs the cycle is turning we used the capital raise as an opportunity to add to our position at a significantly cheaper price point.

Portfolio conviction

Our highest conviction position on the long side remains New Zealand Rural Landco (NZL). After a challenging period, things are starting to come into place for NZL. With the Roc Partners investment announced at the start of the year allowing NZL to recognise value from its assets (albeit at a ~15% discount to NTA but still much better than market discount) and bring gearing down with some cash to deploy in assets that further diversified the portfolio. The long-awaited CPI adjustment on the first dairy leases has passed with little disruption and NZL realising an 18.6% uplift on the last three years' inflation in the middle of FY24 and additional uplifts of this magnitude to flow through in FY25E. NZL's recent acquisition activity has been completed at AFFO accretive yields. With no surprises over the next 12 months, we expect the re-rate journey to continue as AFFO continues to grow.

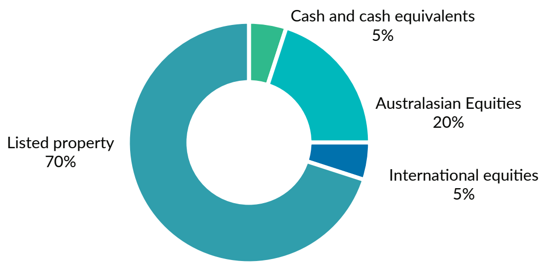
With the RBNZ starting to reduce interest rates, the outlook is becoming more positive for aged care stocks than it has been for some time. Falling interest rates bring improving affordability and liquidity to the housing market, where weak sales activity has been a drag on sector profits and cashflow. The fund has been adding to names in the sector over the quarter.

Industrial property yields remain low on expectations of continued distribution (dividend) growth; however, it is doubtful the level of growth will be sufficient to justify the current premiums. We continue to see more attractive opportunities outside of the industrial property space.

TOP 10 FUND HOLDINGS AT QUARTER END

Security	Weight
Precinct Properties New Zealand Limited	18.0%
Goodman Property Trust	17.5%
Kiwi Property Group Limited	12.4%
Vital Healthcare Property Trust	9.8%
Argosy Property Limited	9.1%
Stride Property Group	8.6%
Property For Industry Limited	5.6%
Investore Property Limited	3.3%
New Zealand Rural Land Company	2.8%
Summerset Group Holdings Limited	1.4%
Major holdings as % of total portfolio	**88.5%**

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.

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 rents across these stocks. Recent strength in the sector may make it more palatable for some of the more indebted names to consider raising capital. However, 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 strong performance.

Portfolio Manager

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