Octagon Investment Funds

Listed Property Fund

Monthly Performance Update as at 31 March 2024

To review the fund's investment objective and strategy, fees information and risk indicator please see the funds' product disclosure statement and most recent fund update at www.octagonasset.co.nz/our-funds/listed-property-fund/.

Return comparison

Return comparison	1 Month	3 Months	1 Year	3 Years*	Since inception*
Net Fund Return^	3.81%	-0.08%	4.19%	-3.42%	6.14%
Gross Fund Return	3.90%	0.21%	5.41%	-2.26%	7.41%
S&P/NZX All Real Estate Gross Index	3.85%	-0.07%	4.22%	-3.59%	7.68%

*Annualised

Major investments

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	**88.41%**

Risk indicator for the Listed Property Fund*

LOWER RISK						HIGHER RISK
1	2	3	4	**5**	6	7
POTENTIALLY LOWER RETURNS						POTENTIALLY HIGHER RETURNS

Manager's comments

What happened in the markets that you invest in?

The NZ 10yr government bond yield retreated slightly in March, down to ~4.6% from ~4.8% at the end of February. The NZ REIT index reflected this sentiment, ending the month up 3.85%. CDL Investments, Investore, and Vital Healthcare outperformed, whilst Winton Land, Asset Plus (APL), and NZ Rural Landco underperformed.

After a busy reporting season, March was a relatively quiet month. Kiwi Property Group (KPG) and APL both provided market updates for the six-months ended 31 March and we expect more companies to update the market over the coming weeks. There were insignificant movements to the value of both KPG and APL's portfolios.

In early April Argosy Property (ARG) announced the unconditional sale of an industrial property at a 1.1% premium to Sep-24 book value. This is ARG's fourth non-core asset sale in the last 12 months, all of which were in line or above book.

While these observations may indicate we are nearing the end of the cap rate hiking cycle, there are some large property assets currently being marketed for sale that may reset direct market prices further. The equity market is pricing in a further 55 basis points (0.55%) of cap rate expansion which equates to a ~9% reduction in asset values.

How did your portfolio perform?

The Listed Property Fund delivered a gross return of 3.90% for March, fractionally ahead of the fund's market index return of 3.85%.

For the 12 months to the end of March, the Listed Property Fund delivered a gross return of 5.41%, considerably outperforming the fund's market index return of 4.22% by 1.20%.

For March positive performance came from our overweight positions in Arvida and Mirvac, and an underweight position in Goodman Property Trust. Detractors to performance were our overweight positions in APL and NZ Rural Landco and our underweight position in Property for Industry.

We actively manage the fund's foreign currency exposures. As of 31 March 2024, these exposures represented 5.33% of the value of the fund. After allowing for foreign currency hedges in place, 3.48% of the value of the fund was unhedged and exposed to foreign currency risk.

What are we thinking about the future?

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

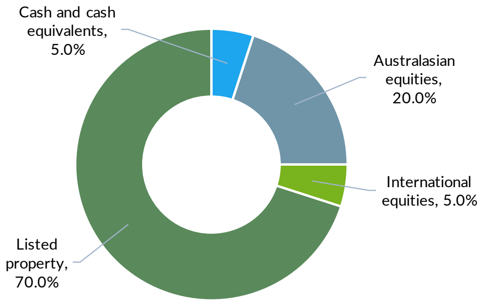
There is some valuation support for the sector given it still trades at a material discount (15% or more) to Net Tangible Assets (NTA). Key risks to the downside include weakening economic activity seeing rental growth slow and/or vacancies rise. Interest rate movements in either direction are likely 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.

If these entities with higher debt levels can continue to sell assets at or around book value without further significant asset devaluations or equity raises, they should begin to close their discount to net tangible assets.

Jason Lindsay, CA
Head of Equities

Tobias Newton
Equity Analyst

Target Asset Allocation



Things to note

- Manager: Forsyth Barr Investment Management Limited
- Investment manager: Octagon Asset Management Limited
- Date the fund started: 26 June 2008
- Tax status: Portfolio Investment Fund (PIE)
- Minimum suggested investment time frame: At least five years
- Benchmark: None
- Currency: New Zealand dollars

View the Product Disclosure Statement for detailed information about this Fund and Octagon Investment Funds Scheme.

Fees

Annual fund charges are currently 1.15% p.a. of the value of your investment. We pay management and administration charges along with the Supervisor fee out of this. All fees and charges are quoted exclusive of GST.

^ Net Fund Returns are calculated before the deduction of taxes and after deduction of fund charges and trading expenses and including imputation credits where available. 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.

* The risk indicator is rated from 1 (low) to 7 (high). The rating reflects how much the value of the relevant fund's assets goes up and down (volatility). A higher risk generally means higher potential returns over time, but more ups and downs along the way. The risk indicator is based on the returns data for the five years to 30 September 2022. See more information about the risks of investing in the Product Disclosure Statement.