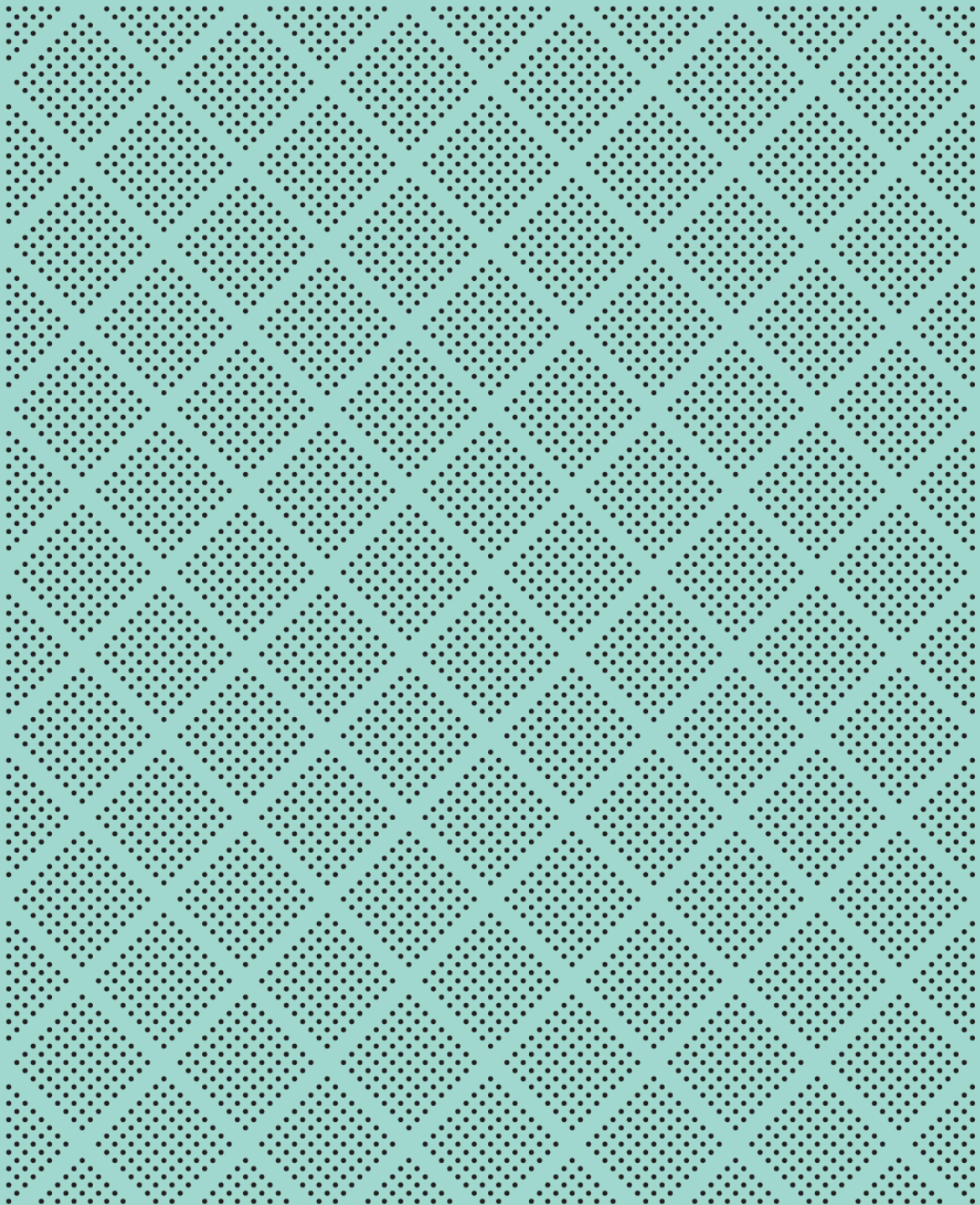


**Quarterly Fund Report:**  
**Mint Australasian Property Fund**



SINGLE SECTOR FUND



## Mint Australasian Property Fund

### Investment Objective

The fund aims to provide investors with long-term capital growth by investing in New Zealand and Australian listed property and property related securities. The Fund has an investment objective of outperforming the S&P/NZX All Real Estate (Industry Group) Gross Index after fees and expenses, over the medium to long term.

The last quarter was a good period for equity markets with most indices trading higher and the NZX50 and ASX 200 leading the pack up 6% and 6.6% respectively. More importantly, it feels like a lot of progress was made over recent months with a number of longstanding concerns starting to be addressed. Central Banks were cognisant started to relax monetary conditions. We also saw signs that the New Zealand Government's moratorium on spending coming to an end. Yes, reporting season was challenging and highlighted volume pressures while costs continue to rise but from a market perspective M&A reappeared in the NZX50 and a couple of significant and successful capital raises show that capital markets are back open for business.

The property sector performed strongly in the third quarter of the year, notwithstanding a weak September. The New Zealand property sector was +8.5% for the quarter and the fund outperformed the index by c 1%. We expected the property sector to perform well in a rate cutting environment and this was indeed the case. With the prospect of further cuts to come in New Zealand we expect further outperformance over the months ahead.

The RBNZ cutting rates faster than was expected a few months ago, has been taken well by equity markets. It helps short term valuations and should also drive lower interest payments going forward when current hedging runs out. But these cuts do highlight rising pressures within the domestic economy. For the property sector, this manifests in the form of rising vacancy and some pressure on the ability to increase rents going forward. However, historically this pressure has been felt more acutely in B and C grade properties with A grade asset valuations and rents holding up better. In general, this is how we have tried to focus the portfolio - on A grade assets, even if the progress that the industry has made since the GFC means that most listed entities are majority focused on A grade assets.

Over the quarter we have reduced our exposure to industrial assets which currently enjoy the highest valuations, and we see as most at risk from a slowing domestic economy. We have increased our exposure to retail assets. This is not without risk in a slowing economy, but hitherto marquee assets such as Sylvia Park have performed strongly and our concerns about Resido (KPG's foray into build to rent) are starting to reduce as the pace of renting up the asset has improved, and the valuation remains compelling relative to the rest of the sector. We have also increased our exposure to the retirement sector in recent months. Management teams have improved their accounting disclosure and made changes to business models that are likely to drive better returns going forward. We also believe that

this industry will benefit significantly from falling interest rates, particularly as we expect this will drive an increase in property transactions going forward, which has been a major headwind for the sector in recent months, effectively making a number of potential residents unable to raise the funds to allow them to purchase a residence in a retirement community.

Over the quarter we also took some profits from our Australasian investments and moved some of this money back to New Zealand, as we believe there is better risk reward in New Zealand on a six-month view. We see scope for more rate cuts in New Zealand over the next six months than from the RBA. The Australian economy continues to hold up better than New Zealand and the recent bounce in commodity prices post China's stimulus package implies this will remain the case over the months ahead.

Furthermore, we see Australia's tax cuts and fuel subsidy as well as ongoing EBA agreements as likely to leave Australian inflation at a higher level than in New Zealand which we believe will leave the RBA unlikely to cut rates until the end of the first quarter of 2025 or early in the second quarter. As a rule, we do not like to let macro views drive stock investment decisions, but the strong rebound in Australian asset valuations has pushed a number towards our fair values for these assets, so we see a better underlying risk/reward in New Zealand over the months ahead. Something we have not written for a while!!

We continue to steer clear of those businesses where we see balance sheet pressures, however. We concede that balance sheet pressure is abating as interest rates fall and that risks to further dividends cuts are also reducing. Furthermore, a number of the companies can now make it through the downturn with their current capital structures. However, we do not believe that this makes for a positive equity story, nor does it allow constrained businesses to take advantage of the economic woes of their peers and buy good quality assets at trough cycle multiples. We would expect those companies with constrained balance sheets to take advantage of a sector rally and raise equity to shore up balance sheets, allow them to continue to pay dividends at current levels and participate in some industry consolidation over the months ahead without having to sell assets to do so.

We continue to make minor changes to the fund to reflect evolving market conditions and underlying earnings. While we continue to expect more water to flow under the bridge as far as the economy is concerned, we believe the pivot from Central Banks leaves the sector well positioned for outperformance if rates continue to be cut, as we expect them to.



## Portfolio Manager, John Middleton

BA

John has more than two decades of experience and joined Mint from ANZ Investments where he was Head of Australasian Equity Research. During this time, he was also heavily involved in corporate broking.

At Mint, John is Portfolio Manager for the Australasian Equity Fund and the Australasian Property Fund and provides research coverage across a number of sectors.



## Portfolio Manager, David Fyfe

BCom (Hons.), CFA

David has over 15 years' experience in the financial industry. Previously he worked at BT Funds Management (NZ) as both a Quantitative and Equity Analyst undertaking sector research specialising in Transportation, Utilities and Technology in both New Zealand and Australian markets.

At Mint, David is the Portfolio Manager for the NZ SRI Equity Fund and the Australasian Property Fund and provides research across a number of sectors.

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