mint
ASSET MANAGEMENT

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.

Data centres and rate concerns weigh on sector

Property markets proved less defensive than hoped in Australasia largely due to concerns about data centres and the unusual phenomenon of bond yields rising in a market sell off. While there were few surprises from results (minimal growth, but dividends maintained), raising AI compute concerns, coinciding with Goodman Group's A$4bn raise to fund the future development of data centres weighed on the stock, sector and fund performance. We see the sector as having little direct impact from tariffs, even if the second derivative impact on industrial and retail remains hard to calibrate given ongoing uncertainties.

Industry news flow solid and dividends look secure

For the most part sector related news flow has been solid (we will address data centres separately below). The New Zealand mini reporting season delivered few surprises. Occupancy outside of Wellington, continues to hold up well. While headline rental growth was achieved during the period, this was largely offset by rising debt servicing costs and left earnings broadly flat year on year. As expected, dividends were maintained despite falling cover in some instances and we would expect this to remain the case going forward.

The few transactions completed imply valuation support returning

Transactions were few and far between, but where assets did change hands, they did so at a small premium to book. Yes, these values have been written down in recent years, but we believe that book values are once again starting to give valuation support. Precinct's sale of the hotel at One Queen Street for NZ$180m to Hotel Properties Ltd (owned by Singapore exchange) was the first sizeable foreign transaction the sector has seen for a number of years and was undertaken at a 5-8% premium to book. While Australasian multiples are not as compelling as those offshore, we believe this transaction highlights that foreign investors are willing to transact if the right asset comes to market.

Under-renting clear, but difficult to correct until economy recovers

The cost to build remains high in Australasia, particularly New Zealand given seismic requirements, making it uneconomic to build given current rents. However, with the replacement cost of current stock material higher than the rent achieved, we see significant under renting should support medium term growth in rents. Even if we concede that rebasing rent in the current economic environment would be difficult.

Will tariffs drive inflation and mean interest rates can't fall?

The narrative for some time has been that the sector should benefit from falling interest rates and we believe this remains true, even if tariffs are likely to lead to higher inflation. In the quarter both the RBNZ and RBA cut rates as expected. Most economists priced in further rate cuts going forward as both economies still need support.

However, if we do see a rebound in inflation, rate cuts could be difficult to implement, and we believe this is one of the issues that weighed on the sector in the quarter. Nevertheless, we believe further rate cuts are required in Australasia, and we expect further rates cuts to be forthcoming and the sector to benefit from this going forward.

Who wins in a trade war? (no one) The Art of the Deal plays the Art of War?

While the US economy remains in a robust position, we see the US' Achilles heel as its mounting debt burden. This means that DOGE will need to deliver the $3 trillion of savings it promised, or at some point either US spending will need to reduce, or the interest rate paid on this debt burden will need to fall, particularly if President Trump follows through with his campaign pledge to deliver tax cuts. For context, as of April the US national debt stands at $36.2 trillion - up from $21.5 trillion in 2018 – this will generate $582.5 billion of interest payments in 2025, equal to the annual budgets of the Departments of Agriculture, Education and Transportation combined.

We do not believe that the US has the ability to target stimulus towards its domestic economy in the same way that China can (direct to its population; through economic stimulus towards domestic manufacturing; through ongoing investment in infrastructure and property development or via its exchange rate). Nor do we consider a US citizen as willing to put up with the adversity in the way that its Chinese counterpart can. So, if the trade war is to escalate and impact the domestic economies of the USA and China, we see this as a lesser problem for life President Xi, than President Trump.

Hitherto, we are surprised that Fed Chairman Jerome Powell has felt the ire of the 47th President less than the 45th, maybe the current focus is to improve international relations? With the President pushing seemingly inflationary policies interest rates are likely to be higher than was expected prior to his election victory. However, Jerome will likely come under increasing pressure from the current administration.

We see it as no coincidence that the US blinked in face of rising bond yields and rolled back tariffs for 90 days. We have already seen the impact that corporates not participating in US Treasury issuance has had on debt markets. If China (the second largest international holder of US Treasuries after Japan; owning $759bn out of $28.6 trillion issued; or 3% of total US Treasuries outstanding; or 9% of those owned by foreign entities[1]) were to sell US Treasuries (without intervention), this would likely push bond yields higher. We hope the US has seen the delicate position it finds itself in, and will act accordingly going forward.

Deepseek – DC demise confirmed by Microsoft capacity cuts? We think not

DeepSeek was unveiled to the world on 27th January professing to be trained at 1/30th of the cost of previous language models without the benefit of state of the art chips and technology. This called into question the need for next generation chips and GPUs (such as Blackwell Ultra and Vera Rubin made by Nvidia) and the need for the proposed build out data centres built by the likes of CDC (owned by Infratil), NextDC and Goodman Group and marked the recent peak in sentiment towards data centre names and the wider technology universe as a whole.

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[1] US Treasury data: https://fiscaldata.treasury.gov/datasets/monthly-statement-public-debt/summary-of-treasury-securities-outstanding and https://ticdata.treasury.gov/resource-center/data-chart-center/tic/Documents/slt_table5.html

Matters were made worse when Microsoft acknowledged in March that it has cancelled 2GW of data centre projects seemingly confirming that less compute will be required than initially thought. However, conversations with CDC (owned by Infratil), HMC Capital and NextDC would imply this is a regular occurrence, with all capacity quickly taken up by other customers with none of these capacity cuts affecting these businesses in Australasia. Furthermore, we believe that delays in new contracting announcements can be explained by the design evolution for new data centre design which we expect to take a maximum of six months to accommodate a fluid chip technology landscape.

Experts also pointed out we have yet to see the impact of AI on data centre compute consumption. Hitherto most of the focus in AI has been on training – using language models to learn to do new things such as answer questions through ChatGPT. Training – the main current use for AI is expected to account for c.5% of compute capability going forward. So, while we concede that data centre valuations were full approaching the year end, we believe the sell-off has started to reveal value.

So where to from here – increased volatility and opportunity

Bottom up, little has changed for the sector. Yes, there is increasing uncertainty going forward, but we believe this has been largely priced into valuations. However, we see the 5% sector yield as becoming increasingly attractive in comparison to falling term deposit rates - now down to 4% in New Zealand. Furthermore, with increasing volatility expected over the months ahead as we progress through tariffs, we believe the stability of sector earnings and Australasia remaining far from the limelight could both play in the sector’s favour.

Portfolio Manager, John Middleton

BA

John has over 22 years' experience and joined Mint from ANZ Investments where he was Head of Australasian Equity Research. In New Zealand, he previously worked as Senior Analyst at AMP Capital undertaking analytical research on a range of sectors including Transportation, Healthcare and Technology companies across both New Zealand and Australia.

Prior to that John was based in London where he worked at JP Morgan as Head of European Aerospace and Defence Research. During this time, he was also heavily involved in corporate broking.

Portfolio Manager, David Fyfe

BCom (Hons.), CFA

David has over 15 years' experience in the financial industry and joined Mint after returning from 5 years working in London. During his time in London, he worked for global private equity firm Pantheon Ventures before joining Lloyds Bank as a Derivatives Analyst.

Previously David 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.

Signatory of:

PRI Principles for Responsible Investment

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riaa Responsible Investment Association Australasia

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