

## Indexing Listed Property Stocks in New Zealand

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Publicly traded property stocks allow investors to gain exposure to real estate, an illiquid asset class, without sacrificing the liquidity benefits of listed equities. Property stocks also typically offer higher yields than the broad equity market, may serve as an effective inflation hedge, and may help diversify a portfolio due to their generally low correlations to stocks and bonds.

S&P Dow Jones Indices and NZX Limited jointly launched the [S&P/NZX Real Estate Select](#) in November 2015 to serve as an investable benchmark for real estate companies listed on the NZX. The index includes the largest, most liquid property companies included in the [S&P/NZX All Index](#). To reduce single stock concentration, the index employs a stock cap of 17.5%, applied semiannually.

Total returns of New Zealand equities, as measured by the [S&P/NZX 50 Index](#), and property stocks, as measured by the S&P/NZX Real Estate Select, were relatively similar over the longer term, while volatility was modestly lower for property stocks (see Exhibit 1). This is somewhat surprising, given that global property stocks have historically had higher volatility than the broader global equity market. As expected, investment-grade bond returns were more modest, but were much less volatile than equities and property stocks.

*The S&P/NZX Real Estate Select includes the largest, most liquid property companies included in the S&P/NZX All Index.*

*Total returns of New Zealand equities and property stocks were relatively similar over the longer term...*

*...while volatility was modestly lower for property stocks.*

**Exhibit 1: Comparative Asset Class Performance Characteristics**

PERIOD	S&P/NZX 50 INDEX	S&P/NZX COMPOSITE INVESTMENT GRADE BOND INDEX	S&P/NZX REAL ESTATE SELECT	S&P GLOBAL 1200
<b>ANNUALIZED RETURN (%)</b>				
1-Year	21.7	8.2	34.1	3.8
3-Year	13.9	4.3	13.7	11.1
5-Year	16.0	5.8	15.6	7.6
10-Year	13.7	5.8	13.9	10.4
Since July 2006	8.9	6.1	9.6	6.7
<b>RISK (STANDARD DEVIATION, %)</b>				
3-Year	8.1	2.2	8.0	11.0
5-Year	9.1	2.2	7.9	11.6
10-Year	8.9	2.4	8.2	13.1
Since July 2006	11.1	2.7	10.1	15.6
<b>RISK-ADJUSTED RETURN</b>				
3-Year	1.72	1.96	1.72	1.00
5-Year	1.76	2.67	1.98	0.66
10-Year	1.54	2.41	1.70	0.79
Since July 2006	0.80	2.23	0.95	0.43

Source: S&P Dow Jones Indices LLC. Data as of July 31, 2019. Past performance is no guarantee of future results. Risk is defined as the standard deviation of monthly total returns. Table is provided for illustrative purposes and reflects hypothetical historical performance. Please see the Performance Disclosure at the end of this document for more information regarding the inherent limitations associated with back-tested performance.

As shown in Exhibit 2, the S&P/NZX Real Estate Select historically had relatively low correlations to both the S&P/NZX 50 Index and the [S&P/NZX Composite Investment Grade Bond Index](#).

**Exhibit 2: Historical Asset Class Correlations**

INDEX	S&P/NZX 50 INDEX	S&P/NZX COMPOSITE INVESTMENT GRADE BOND INDEX	S&P/NZX REAL ESTATE SELECT	S&P GLOBAL 1200
<b>S&amp;P/NZX 50 INDEX</b>	1	-	-	-
<b>S&amp;P/NZX COMPOSITE INVESTMENT GRADE BOND INDEX</b>	-0.07	1	-	-
<b>S&amp;P/NZX REAL ESTATE SELECT</b>	0.55	0.06	1	-
<b>S&amp;P GLOBAL 1200</b>	0.65	-0.29	0.36	1

Source: S&P Dow Jones Indices LLC. Data from July 31, 2006, to July 31, 2019. Past performance is no guarantee of future results. Correlations based on 156 monthly total returns. Table is provided for illustrative purposes and reflects hypothetical historical performance. Please see the Performance Disclosure at the end of this document for more information regarding the inherent limitations associated with back-tested performance.

Exhibits 3 and 4 illustrate the potential diversification benefits of adding a listed property allocation to a stylized equity or equity/bond portfolio. For example, a hypothetical 80%/20% combination of the S&P/NZX 50 Index and S&P/NZX Real Estate Select resulted in a meaningful reduction in volatility of almost 100 bps compared with a 100% position in the S&P/NZX

50 Index. This reduction was driven by the lower risk profile of the S&P/NZX Real Estate Select and the relatively low correlation between the indices.

**Exhibit 3: Combining New Zealand Stocks and Listed Property**

INDEX	TOTAL RETURN (%)	RISK (%)	RETURN/RISK
S&P/NZX 50 Index	8.91	11.10	0.80
S&P/NZX Real Estate Select	9.59	10.13	0.95
80% Stocks/20% Property	9.13	10.13	0.90

*There are potential diversification benefits of adding a listed property allocation to a stylized equity or equity/bond portfolio.*

The 80% Stocks/20% Property portfolio is a hypothetical portfolio.

Source: S&P Dow Jones Indices LLC. Data from July 31, 2006, to July 31, 2019. Past performance is no guarantee of future results. All figures are annualized. Risk is defined as the annualized standard deviation of monthly total returns. Table is provided for illustrative purposes and reflects hypothetical historical performance. Please see the Performance Disclosure at the end of this document for more information regarding the inherent limitations associated with back-tested performance.

Similarly, adding a 10% listed property allocation to the equity portion of a 60% S&P/NZX 50 Index and 40% S&P/NZX Composite Investment Grade Bond Index portfolio resulted in a further reduction in volatility and higher risk-adjusted return over this period.

**Exhibit 4: Combining NZ Stocks, Bonds, and Listed Property**

INDEX	TOTAL RETURN (%)	RISK (%)	RETURN/RISK
S&P/NZX 50 Index	8.91	11.10	0.80
S&P/NZX Real Estate Select	9.59	10.13	0.95
S&P/NZX Composite Investment Grade Bond Index	6.13	2.75	2.23
60% Stocks/40% Bonds	7.97	6.67	1.19
50% Stocks/40% Bonds/10% Property	8.06	6.20	1.30

*These benefits include reduced volatility and higher risk-adjusted returns.*

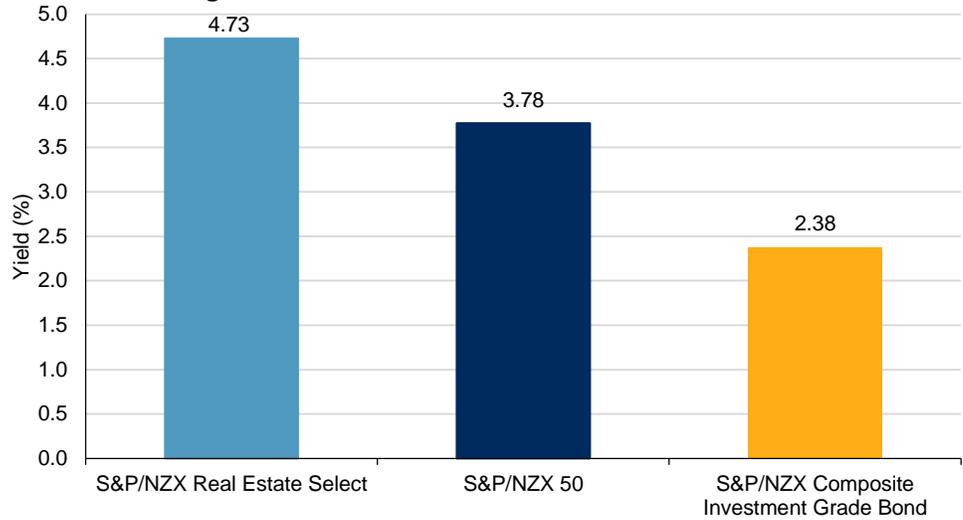
The 60% Stocks/40% Bonds and 50% Stocks/40% Bonds/10% Property portfolios are hypothetical portfolios.

Source: S&P Dow Jones Indices LLC. Data from July 31, 2006, to July 31, 2019. Past performance is no guarantee of future results. All figures are annualized. Risk is defined as the annualized standard deviation of monthly total returns. Table is provided for illustrative purposes.

Furthermore, New Zealand property stocks had attractive yields relative to both equities and bonds in recent years. As depicted in Exhibit 5, the dividend yield of the S&P/NZX Real Estate Select exceeded the S&P/NZX 50 Index by nearly 100 bps and the S&P/NZX Composite Investment Grade Bond Index by more than 230 bps on average over the past three years. The yield pickup relative to New Zealand bonds has been particularly large in recent years, owing to the low interest rate environment.

*Furthermore, New Zealand property stocks had attractive yields relative to both equities and bonds in recent years.*

**Exhibit 5: Average Yield**



*In comparison with New Zealand equities...*

*...New Zealand property stocks generated strong total returns and relatively high yields...*

Source: S&P Dow Jones Indices LLC. Data from July 29, 2016, to July 31, 2019. Past performance is no guarantee of future results. Chart is provided for illustrative purposes.

**CONCLUSION**

In summary, in comparison with New Zealand equities, New Zealand property stocks have historically generated strong total returns and relatively high yields, while maintaining modestly lower volatility. Moreover, their relatively low correlation to both equities and bonds serves to reinforce the potential benefits of including property stocks in a broader portfolio context.

*...while maintaining modestly lower volatility.*

## PERFORMANCE DISCLOSURE

The S&P/NZX Real Estate Select was launched Oct. 12, 2015. All information presented prior to an index's Launch Date is hypothetical (back-tested), not actual performance. The back-test calculations are based on the same methodology that was in effect on the index Launch Date. However, when creating back-tested history for periods of market anomalies or other periods that do not reflect the general current market environment, index methodology rules may be relaxed to capture a large enough universe of securities to simulate the target market the index is designed to measure or strategy the index is designed to capture. For example, market capitalization and liquidity thresholds may be reduced. Complete index methodology details are available at [www.spdji.com](http://www.spdji.com). Past performance of the Index is not an indication of future results. Prospective application of the methodology used to construct the Index may not result in performance commensurate with the back-test returns shown.

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