

Nikko AM SRI Equity Strategy

Monthly Update 31 October 2024

Assets are held in the Nikko AM Wholesale SRI Equity Fund. The Nikko AM SRI Equity Fund (retail) and the Nikko AM KiwiSaver SRI invest in units in the wholesale fund, which the commentary refers to.

Market Overview

- Most key international equity markets were negative over the month with rising bond yields providing a headwind.
- The United States S&P 500 index fell 1.0%, the Japanese Nikkei 225 rose 3.1%, the UK FTSE 100 index declined 1.5%, the Australian ASX 200 index lost 1.3% and the MSCI World index ended the month down 1.1% (in local terms).
- The S&P/NZX 50 index ended the month up 1.7%.

Fund Highlights

- The fund ended the month up 2.3%, 0.6% ahead of the index return.
- Arcadium Lithium received a takeover bid from Rio Tinto at a price around 100% above where it was trading.
- Freightways and Scales had large shareholders sell their positions that were approximately \$110m and \$80m in value.
- Overweight positions in Arcadium Lithium, Ryman Healthcare, and Scales Corp added value. Overweight positions in NextDC and Worley and an underweight (nil holding) position in Skellerup detracted from value.

Performance

	One month	Three months	One year	Three years (p.a.)	Five years (p.a.)	Ten years (p.a.)
Wholesale¹	2.29%	2.87%	19.36%	1.76%	6.72%	11.89%
Benchmark²	1.74%	2.19%	18.41%	-0.36%	4.00%	9.95%
Retail³	2.12%	2.49%	18.03%			
KiwiSaver⁴	2.09%	2.44%	17.93%	0.51%	4.53%	

1. Returns are before tax and before the deduction of fees and including tax credits (if any).
2. Benchmark: S&P/NZX 50 Index Gross (with Imputation Credits). No tax or fees.
3. Returns are before tax and after the deduction of fees and expenses and including tax credits (if any).
4. KiwiSaver fund transitioned from core strategy to SRI strategy in February 2022.

Five Year Cumulative Performance, \$10,000 invested^{1,2}



Portfolio Manager

Michael De Cesare,
Portfolio Manager

Responsible for the SRI Equity Fund. Covers the Communications, Transport and Consumer Staples sectors. Over 15 years of experience in the finance industry including ANZ Institutional Bank and Fortis Investments. Michael holds a First-Class Honours degree in Industrial Economics from the University of Nottingham Business School, United Kingdom. Joined in 2012.



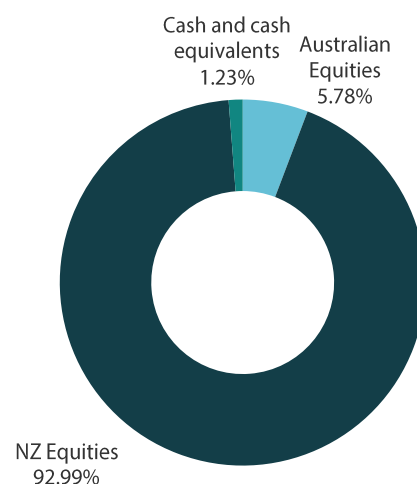
Overview

The SRI Equity Strategy seeks growth opportunities by investing in New Zealand and Australian equity markets. Our local equity portfolio management team hand pick stocks that they believe have potential for growth of income and capital. The fund excludes any company that derives more than 10% of its revenue from alcohol, pornography, gambling, tobacco and extraction of thermal coal and tar sands oil. There is a full ban on controversial weapons.

Objective

The fund aims to outperform the benchmark return by 3% per annum before fees, expenses and taxes over a rolling three-year period.

Asset Allocation



Attribution To Performance			
What Helped:		What Hurt:	
Arcadium Lithium	OW	NextDC	OW
Ryman Healthcare	OW	Skellerup	NH
Scales Corp	OW	Worley	OW

OW: overweight; UW: underweight; NH: no holdings; RS: restricted stock

Top 10 Holdings (% of fund)			
Fisher & Paykel Healthcare	15.91	Spark New Zealand	4.83
Infratil	10.91	Mainfreight	4.83
Auckland International Airport	9.19	EBOS	4.38
Contact Energy	7.16	A2 Milk	4.04
Meridian Energy	6.14	Summerset	3.43

Sector Allocation (% of fund)	Fund	Benchmark
Health care	27.82%	26.36%
Industrials	19.04%	20.55%
Utilities	16.10%	16.80%
Financials	11.29%	12.32%
Communication services	8.72%	7.48%
Real estate	6.76%	7.74%
Consumer staples	5.48%	4.66%
Information technology	1.66%	1.54%
Cash and cash equivalents	1.23%	0.00%
Energy	0.94%	0.46%
Materials	0.72%	0.43%
Consumer discretionary	0.24%	1.67%
Number of holdings	33	50

Market Commentary

Most key international equity markets were negative over the month with rising bond yields providing a headwind. Markets are trying to assess the impact of the pending U.S. election, while also analysing earnings results being released by U.S. companies for the period ending September. The US 10-year bond yield rose 50bps over the month as better economic data fed through to likely slower or smaller rate cuts than had previously been expected. This move flowed through to both the New Zealand and Australian 10-year bond yields, up 24bps and 53bps respectively. Assisting the New Zealand equity market was the Reserve Bank of New Zealand continuing its rate cuts, dropping the Official Cash Rate by 50bps during the month.

Fund Commentary

The largest positive contributors to the fund's relative return were overweight positions in **Arcadium Lithium** (LTM), **Ryman Healthcare** (RYM) and **Scales Corp** (SCL). LTM delivered a positive 94.1% return. The company received a takeover bid from Rio Tinto at US\$5.85 per share which the LTM board endorsed. RYM delivered a positive 15.6% return. The company continues to benefit from investors rotating into interest rate sensitive stocks. SCL delivered a positive 14.6% return. A major shareholder China Resources sold their entire position, 15% of the company. The shares rallied afterwards given the removal of the perceived overhang.

The largest negative contributors to relative return were from overweight positions **NextDC** (NXT), **Worley** (WOR), and an underweight (nil holding) position in Skellerup. NXT delivered a negative 6.2% return. The company continues to digest its \$550m capital raise from September. WOR delivered a negative 5.6% return. On no specific news albeit some in the market may be weighing the implications of a Trump presidency. SKL delivered a positive 12.2% return. The company held an investor day during the month.

Key portfolio changes during the month included establishing a new position in **Scales Corp** (SCL). Adding to positions in **Freightways** (FRW), **Stride** (SPG), **Kiwi Property Group** (KPG). Reducing positions in **Arcadium** (LTM), **Resmed** (RMD), and **Chorus** (CNU). (**Bold** denotes stocks held in the portfolio).

Key Fund Facts

Estimated annual fund charges (incl. GST)	Foreign Currency Exposure:	May be hedged to NZD at the Manager's discretion within an operational range of 0% to 105%. Currently the fund's foreign currency exposure is unhedged.	Strategy Launch:	January 2008
Wholesale: Negotiated outside of the unit price. Retail: 0.95%, refer to PDS for more details. KiwiSaver: 0.95%, refer PDS for more details.	Exclusions:	Controversial weapons (including but not limited to cluster munitions and chemical, biological and nuclear weapons).	Strategy size:	\$91.8m
Distributions:	Restrictions:	Tobacco stocks, fossil fuels, adult entertainment, alcohol and gambling. For more information, please refer to the Statement of Investment Policy and Objectives (SIPO) on our website https://www.nikkoam.co.nz/invest/retail .	Buy / Sell spread:	0.29%/0.29%
Wholesale: Calendar quarter Retail: March and September KiwiSaver: Does not distribute				

Compliance

The wholesale fund complied with its investment mandate and trust deed during the month.

Contact Us

www.nikkoam.co.nz | nzenquiries@nikkoam.com

This document is issued by Nikko Asset Management New Zealand Limited (Company No. 606057, FSP No. FSP22562), the investment manager of the Nikko AM NZ Investment Scheme, the Nikko AM NZ Wholesale Investment Scheme and the Nikko AM KiwiSaver Scheme. This information is for the use of researchers, financial advisers and wholesale clients. This material has been prepared without taking into account a potential investor's objectives, financial situation or needs and is not intended to constitute financial advice, and must not be relied on as such. Recipients of this document, who are not wholesale investors (in accordance with Schedule 1, Clause 3 Financial Markets Conduct Act 2013), or their duly appointed agent, should consult a Financial Advice Provider and the relevant Product Disclosure Statement. Past performance is not a guarantee of future performance. While we believe the information contained in this presentation is correct at the date of presentation, no warranty of accuracy or reliability is given and no responsibility is accepted for errors or omissions including where provided by a third party. For full details on the fund, please refer to our Product Disclosure Statement on nikkoam.co.nz.