

Nikko AM SRI Equity Strategy

Monthly Update 30 June 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

- Global equity markets had mixed performance over the quarter with the timing of rate cuts being pushed out and bond yields moving higher negatively impacting markets, offset by earnings results.
- The United States S&P 500 index rose 3.9%, the Japanese Nikkei 225 fell 2.0%, the UK FTSE 100 index increased 2.7%, the Australian ASX 200 index declined 1.1% and the MSCI World index ended the quarter up 3.4% (in local terms).
- The S&P/NZX 50 index ended the quarter down 3.1%.

Fund Highlights

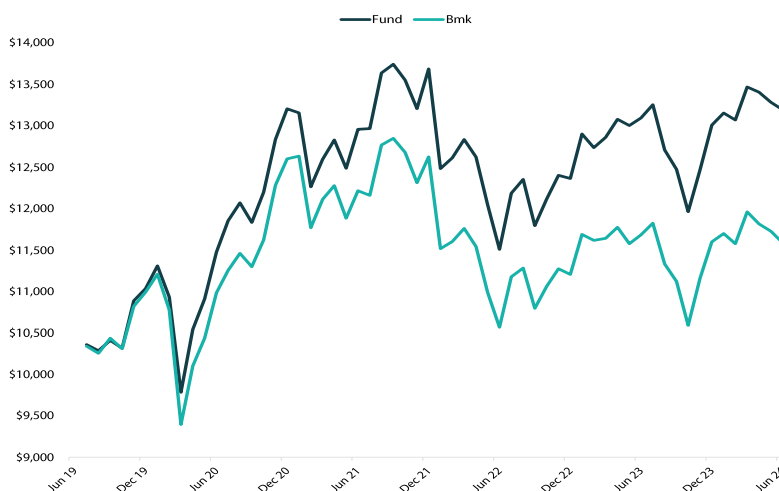
- The fund ended the quarter down 2.05%, 1.08% ahead of the index return.
- Earnings guidance updates and company results for the period ended 31 March dominated news flow and share price performance.
- NextDC completed an AU\$1.3b capital raising to fund further data centre developments while Heartland Bank completed a \$210m raising to buy Challenger Bank in Australia and Infratil raised \$1.15b to fund its data centre development pipeline.
- A deal to keep the Tiwai Point Aluminium smelter open for another 20 years was agreed which provided a boost to Mercury, Meridian Energy and Contact Energy who will supply electricity to the smelter.
- Overweight position Infratil and underweight positions Fletcher Building and restricted stock (nil holdings) Sky City added value. Overweight positions Summerset, Sky Network Television and Ryman Healthcare detracted value.

Performance

	One month	Three months	One year	Three years (p.a.)	Five years (p.a.)	Ten years (p.a.)
Wholesale¹	-0.69%	-2.05%	0.76%	0.60%	5.70%	11.89%
Benchmark²	-1.19%	-3.13%	-0.83%	-1.74%	2.99%	9.66%
Retail³	-0.78%	-2.28%	-0.21%			
KiwiSaver⁴	-0.79%	-2.31%	-0.20%	-0.46%	3.58%	

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.

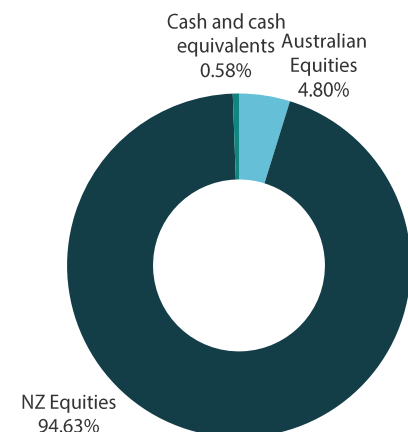
Overview

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:	
Infratil	OW	Summerset	OW
Fletcher Building	UW	Sky Network Television	OW
Sky City	RS	Ryman Healthcare	OW

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

Top 10 Holdings (% of fund)			
Fisher & Paykel Healthcare	14.16	Meridian Energy	6.95
Infratil	12.25	EBOS	5.01
Contact Energy	9.23	A2 Milk	4.83
Auckland International Airport	9.07	Mainfreight	4.13
Spark	7.26	Mercury	3.91

Sector Allocation (% of fund)	Fund	Benchmark
Industrials	27.53%	27.74%
Health care	26.33%	24.28%
Utilities	20.09%	18.80%
Communication services	12.40%	9.68%
Consumer staples	4.83%	5.44%
Real estate	3.36%	7.78%
Information technology	2.26%	1.57%
Energy	1.32%	0.32%
Cash and cash equivalents	0.58%	0.00%
Financials	0.51%	2.29%
Materials	0.46%	0.39%
Consumer discretionary	0.32%	1.71%
Number of holdings	28	50

Market Commentary

While there was mixed economic data, sticky inflation continues to impact on markets with the likely timing of interest rate cuts by the US Federal Reserve pushed out. There is also a risk that the Reserve Bank of Australia raises rates as Australian CPI continues to print higher than expectations. This led to 10-year bond yields rising over the quarter with the US 10-year rate rising from 4.2% to 4.4%, the Australian 10-year rate rising from 3.96% to 4.31% and the New Zealand 10-year rate rising from 4.54% to 4.67%. The pushing out of the timing of rate cuts and the increase in bond yields had a negative impact on equity markets but in certain markets this was offset by good earnings results. The tech heavy Nasdaq index was a strong performer, up 8.3% as the likes of Nvidia, Apple, Alphabet, Tesla, Amazon and Microsoft continued to push higher on good results, up 36.7%, 23.0%, 20.8%, 12.6%, 7.1% and 6.4% respectively over the quarter. Geo-political tensions also weighed on markets with conflict in the Middle East continuing and the risk that it escalates across the region.

Fund Commentary

The largest positive contributors to the fund's relative return were from overweight position **Infratil** (IFT) and underweight positions Fletcher Building (FBU) and restricted stock (nil holdings) Sky City (SKC). IFT delivered a positive 4.2% return. The stock performed well post the company's \$1.15b capital raising to fund its data centre development pipeline. FBU delivered a negative 31.1% return. The company continues to disappoint the market, announcing an earnings guidance downgrade as trading conditions continue to weaken. The largest negative contributors to relative return were from overweight positions **Summerset** (SUM), **Sky Network Television** (SKT) and **Ryman Healthcare** (RYM). SUM delivered a negative 16.7% return. There was optimism surrounding the NZ residential property market at the start of the calendar year however this continues to sour due to weaker than anticipated economic data, alongside higher for longer interest rates, contributing to the weak SUM stock performance. Although, also impacted by contagion from Ryman Healthcare's earnings result. SKT delivered a negative 17.0% return. SKT has been affected by the negative sentiment surrounding consumer stocks, given a number of them have downgraded their earnings forecasts. RYM delivered a negative 21.8% return. RYM's Chief Executive Officer unexpectedly resigned which followed an earnings downgrade announced earlier in the year. RYM's subsequent result announcement included revelations regarding previous accounting practices which disappointed the market.

Key portfolio changes during the quarter included exiting Radius Residential Care (RAD), Michael Hill (MHJ), Freightways (FRW), and Ramsay Health Care (RHC). Establishing new positions in **Heartland Group** (HGH), **Resmed** (RMD) and **Worley** (WOR). Adding to positions in **Mercury** (MCY), **EBOS** (EBO), and **Meridian** (MEL). Reducing positions in **Sky Network Television** (SKT) and **Ryman Healthcare** (RYM). (**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.	Exclusions:	Controversial weapons (including but not limited to cluster munitions and chemical, biological and nuclear weapons).	Strategy size:	\$61.4m
Retail:	0.95%, refer to PDS for more details.				
KiwiSaver:	0.95%, refer to PDS for more details.				
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 quarter.

Contact Us

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