

# Nikko AM Concentrated Equity Strategy

Monthly Update 31 July 2024

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

## Market Overview

- Global equity markets had mixed performance over the month as rate cuts and the potential for more rate cuts were countered by a rotation away from tech related stocks.
- The United States S&P 500 index rose 1.1%, the Japanese Nikkei 225 fell 1.2%, the UK FTSE 100 index increased 2.5%, the Australian ASX 200 index gained 4.2% and the MSCI World index ended the month down 0.2% (in local terms).
- The S&P/NZX 50 index ended the month up 5.9%.

## Fund Highlights

- The fund ended the month up 4.3%.
- A takeover bid was received for Arvida Group at \$1.70 which compares to where the stock was trading prior to the bid at \$1.03. This led to strong a performance for other stocks in the retirement sector.
- The fund's positions in Summerset, Waypoint REIT and Ryman Healthcare added value while positions in Contact Energy, NextDC and Infratil detracted from value.

## Performance

	One month	Three months	One year	Three years (p.a.)	Five years (p.a.)	Ten years (p.a.)
<b>Wholesale<sup>1</sup></b>	4.29%	3.23%	8.35%	1.94%	5.99%	11.70%
<b>Benchmark<sup>2</sup></b>	0.85%	2.55%	10.53%	8.60%	7.35%	7.30%
<b>Retail<sup>3</sup></b>	4.31%	2.93%	7.09%	0.69%	4.52%	9.65%
<b>S&amp;P/NZX50<sup>4</sup></b>	5.90%	3.85%	3.78%	0.31%	3.48%	10.24%

- Returns are before tax and before the deduction of fees and including tax credits (if any).
- Benchmark: RBNZ Official Cash Rate plus 5% per annum. No tax or fees.
- Returns are before tax and after the deduction of fees and expenses and including tax credits (if any).
- S&P / NZX 50 Index Gross (with Imputation Credits). No tax or fees.

## Portfolio Manager

**Michael Sherrock,  
Head of Equities**



Michael joined Nikko AM in 2006 and covers the Energy, Materials, Metals and Mining and Media sectors. He has over 20 years' experience and previously held roles with Schroders UK and ASB Group Investments. Michael is a CFA charter-holder and holds a Bachelor of Commerce degree from the University of Auckland.

## Overview

The Concentrated Equity Fund is a collection of the portfolio manager's highest conviction investment ideas to achieve capital appreciation. The typical number of stocks in the portfolio is circa 15.

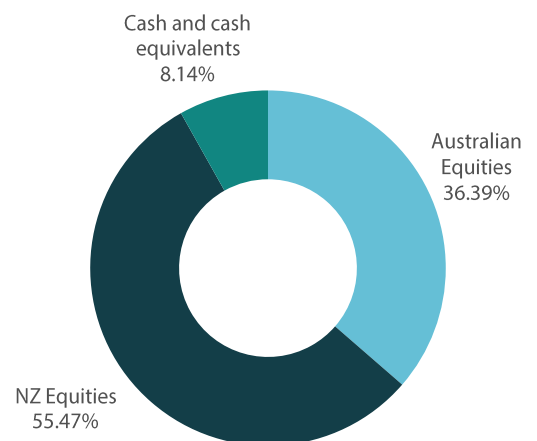
## Objective

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

## Five-Year Cumulative Performance, \$10,000 invested<sup>1,2</sup>



## Asset Allocation



Contribution To Performance*		Top 10 Holdings (% of fund)			
<b>What Helped:</b>	<b>What Hurt:</b>	Infratil	11.26	Aristocrat Leisure	6.67
Summerset	Contact Energy	Contact Energy	10.44	Ingenia Communities	6.05
Waypoint REIT	NextDC	Spark NZ	9.28	Waypoint REIT	5.77
Ryman Healthcare	Infratil	NextDC	9.13	Worley	5.56
		Summerset	8.11	Mainfreight	5.01
		<b>Number of holdings</b>	<b>15</b>		

\*Absolute contribution – not relative to S&P/NZX50 Index

## Market Commentary

The Reserve Bank of New Zealand (RBNZ) Official Cash Rate (OCR) decision represented the major market-moving event in July. There was no change to the OCR at 5.5% but the accompanying commentary surprised the market by being a lot more dovish than had been anticipated. Meaning the stance of the RBNZ tilted more toward stimulating economic growth than expected and as a result, increased the probability of an interest rate cut sooner than what had been priced into the market. This was positive for the equity market. The RBNZ acknowledged the trend of soft economic indicators and discussed the risk that their prevailing tight monetary policy (high interest rate) has had a more pronounced effect on activity than expected, feeding through to consumers and domestic demand more broadly. They noted their belief that inflation will return sustainably to within the 1-3% target range over the second half of 2024 and that their restrictive policy will be tempered over time consistent with the expected decline in inflation pressures. This was a significant turn of events. The RBNZ increased interest rates at an unprecedented pace and subsequently held the rate steady since May 2023 leading to considerable pressure in the economy. The market has been keenly anticipating the commencement of the monetary policy easing cycle, the reduction in rates and an alleviation of the pressure. The OCR event shifted expected timing of the first cut from February 2025 to anytime starting from the next meeting and the resulting market action was extreme. In terms of the equity market, the S&P/NZX 50 index closed 5.9% higher. On an equal weight basis, the market was up 10% as small and mid-sized companies performed better than their larger counterparts. Among the 50 index members, 43 delivered positive returns.

## Fund Commentary

The largest positive contributors to the fund's return were positions in **Summerset (SUM)**, **Waypoint REIT (WPR)** and **Ryman Healthcare (RYM)**. Both RYM and SUM initially performed well on the back of a more dovish than expected Monetary Policy Review statement from the RBNZ. This was followed by a takeover offer for Arvida (ARV) which pushed the retirement sector stocks higher in the second half of the month. The takeover offer for ARV is priced at \$1.70 per share which compares to where the stock was trading prior to the bid at \$1.03 per share. RYM and SUM gained 27.3% and 17.9% respectively. WPR gained 16.6% (in AUD), assisted by a weaker than expected Consumer Price Index number for Australia which reduces the prospect that the Reserve Bank of Australia will raise its cash rate.

The largest negative contributors to the fund's return were from positions in **Contact Energy (CEN)**, **NextDC (NXT)** and **Infratil (IFT)**. Following its capital raising and strong performance in June, IFT gave up some of last month's gain ending the month down 3.75%. CEN fell 5.6% after disappointing the market with lower-than-expected earnings guidance for financial year 2025. Dividend growth for the next couple of years will also be lower than market expectations. After its recent strong run, NXT fell 5.0% (in AUD) as globally there was some selling of tech names and buying of small and mid capitalisation stocks.

Portfolio changes over the month included adding to our positions in **Worley (WOR)**, RYM and **Channel Infrastructure (CHI)**. Positions **NXT**, **Mainfreight (MFT)**, IFT, CEN and **Aristocrat Leisure (ALL)** were reduced. The fund's position in Fisher & Paykel Healthcare (FPH) was divested. (**Bold** denotes stocks held in the portfolio).

## Key Fund Facts

<b>Estimated annual fund charges (incl. GST)</b>	<b>Hedging:</b>	Foreign currency exposures 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.	<b>Strategy Launch:</b>	August 2006
<b>Wholesale:</b> Negotiated outside of the unit price. 1.15%. refer PDS for more details.	<b>Exclusions:</b>	Controversial weapons (including but not limited to cluster munitions and chemical, biological and nuclear weapons).	<b>Strategy size:</b>	\$46.2m
<b>Retail:</b>	<b>Restrictions:</b>	Tobacco stocks, fossil fuels. For more information, please refer to the Statement of Investment Policy and Objectives (SIPO) on our website <a href="https://www.nikkoam.co.nz/invest/retail">https://www.nikkoam.co.nz/invest/retail</a> .	<b>Buy / Sell spread:</b>	0.29%/0.29%
<b>Distributions:</b>				
<b>Wholesale:</b> Calendar quarter				
<b>Retail:</b> March and September				

## Compliance

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

## Contact Us

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