

Nikko AM SRI Equity Strategy

Monthly Update 31 July 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 month as rate cuts and the potential for more rate cuts were countered by a rotation away from technology 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 5.2% and 0.7% behind the index return.
- 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.
- Overweight positions in Summerset, Ryman Healthcare and Arvida added value. Overweight positions in Infratil, Contact Energy and NextDC detracted from value.

Performance

	One month	Three months	One year	Three years (p.a.)	Five years (p.a.)	Ten years (p.a.)
Wholesale¹	5.21%	3.55%	4.72%	2.30%	6.03%	12.29%
Benchmark²	5.90%	3.85%	3.78%	0.31%	3.48%	10.24%
Retail³	5.12%	3.28%	3.71%			
KiwiSaver⁴	5.10%	3.24%	3.69%	1.29%	3.81%	

- Returns are before tax and before the deduction of fees and including tax credits (if any).
- Benchmark: S&P/NZX 50 Index Gross (with Imputation Credits). No tax or fees.
- Returns are before tax and after the deduction of fees and expenses and including tax credits (if any).
- 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.



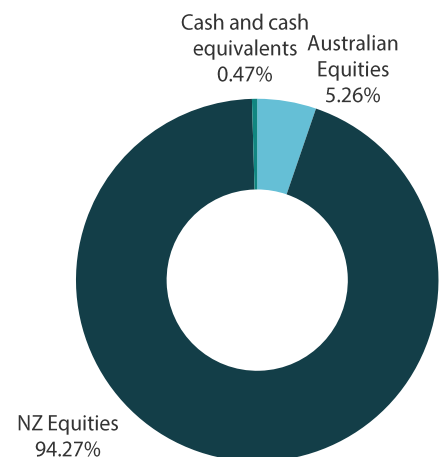
Overview

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:	
Summerset	OW	Infratil	OW
Ryman Healthcare	OW	Contact Energy	OW
Arvida	OW	NextDC	OW

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

Top 10 Holdings (% of fund)			
Fisher & Paykel Healthcare	14.40	Spark New Zealand	6.86
Infratil	10.55	EBOS	5.54
Auckland International Airport	8.12	A2 Milk	5.34
Contact Energy	7.07	Mainfreight	4.32
Meridian Energy	7.02	Summerset	4.07

Sector Allocation (% of fund)	Fund	Benchmark
Health care	29.46%	25.65%
Industrials	25.71%	27.68%
Utilities	17.93%	17.68%
Communication services	11.40%	9.40%
Consumer staples	5.34%	5.56%
Real estate	5.04%	7.71%
Information technology	1.71%	1.56%
Energy	1.43%	0.29%
Financials	0.78%	2.32%
Cash and cash equivalents	0.47%	0.00%
Materials	0.43%	0.36%
Consumer discretionary	0.31%	1.79%
Number of holdings	32	50

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 expected, noting inflation will return to the 1-3% target range over the second half of 2024. As a result, the RBNZ's restrictive policy will likely be tempered over time, consistent with the expected decline in inflation pressures. This was a significant turn of events and brought forward the market's expectations of the first OCR cut from February 2025 to possibly as early as August 2024. This saw the NZ equity market rally strongly, with the S&P/NZX 50 index closing 5.9% higher. On an equal weight basis, the market was up 10.4% 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 relative return were overweight positions in **Summerset (SUM)**, **Ryman Healthcare (RYM)**, and **Arvida (ARV)**. SUM delivered a positive 17.9% return. RYM delivered a positive 27.3% return. ARV delivered a positive 74.2% return. These three retirement sector companies initially performed well on the back of a more dovish than expected Monetary Policy Review statement from the RBNZ. The retirement sector performed very well in the second half of the month following a takeover offer for ARV. The takeover offer is priced at \$1.70 per share which compares to where the stock was trading prior to the bid at \$1.03 per share.

The largest negative contributors to relative return were from overweight positions in **Infratil (IFT)**, **Contact Energy (CEN)** and **Next DC (NXT)**. IFT delivered a negative 3.8% return. Following its capital raising and strong performance in June, IFT gave up some of last month's gain. CEN delivered a negative 5.6% return. CEN fell 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. NXT delivered a negative 5.0% return. After stellar performance, the stock fell in sympathy with global profit taking and position rotation away from AI related companies. This is despite the large U.S. technology companies such as Microsoft committing greater than expected investment into AI, which directly benefits data centre providers such as NXT.

Key portfolio changes during the month included establishing new positions in **Port Of Tauranga (POT)**, **Stride (SPG)** and **Centuria Industrial (CIP)**. Adding to positions in **Precinct (PCT)**, **Resmed (RMD)**, and **Worley (WOR)**. Reducing positions in **Fletcher Building (FBU)**, **Next DC (NXT)** and **Contact Energy (CEN)**. (**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:	\$65.2m
Retail:	0.95%, refer to PDS for more details.				
KiwiSaver:	0.95%, refer to PDS for more details.	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%
Distributions:					
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

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