

Nikko AM Concentrated Equity Strategy

Monthly Update 31 August 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 a mixed performance over the month with economic data, rate outlook and earnings results leading to a volatile month.
- The United States S&P 500 index rose 2.3%, the Japanese Nikkei 225 fell 1.2%, the UK FTSE 100 index increased 0.1%, the Australian ASX 200 index gained 0.5% and the MSCI World index ended the month up 1.7% (in local terms).
- The S&P/NZX 50 index ended the month up 0.4%.

Fund Highlights

- The fund ended the month down 1.1%.
- The weak economic environment showed up in a number of earnings announcements for companies who released their June period ending results.
- The fund's positions in Ryman Healthcare, Infratil and Contact Energy added value while positions in Spark, Arcadium Lithium and SkyCity Entertainment detracted from value.

Performance

| | One month | Three months | One year | Three years (p.a.) | Five years (p.a.) | Ten years (p.a.) |
|----------------------------------|-----------|--------------|----------|--------------------|-------------------|------------------|
| Wholesale¹ | -1.05% | 2.96% | 7.97% | -0.08% | 6.57% | 11.64% |
| Benchmark² | 0.84% | 2.54% | 10.52% | 8.74% | 7.42% | 7.32% |
| Retail³ | -1.14% | 2.65% | 6.72% | -1.19% | 5.09% | 9.60% |
| S&P/NZX50⁴ | 0.40% | 5.06% | 8.72% | -1.18% | 3.74% | 10.16% |

- 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 charterholder and holds a Bachelor of Commerce degree from the University of Auckland.

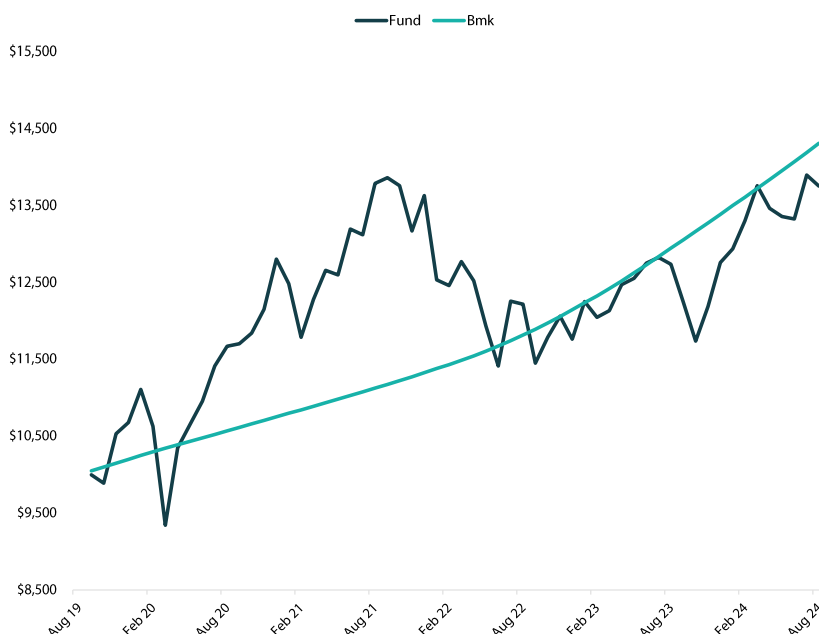
Overview

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.

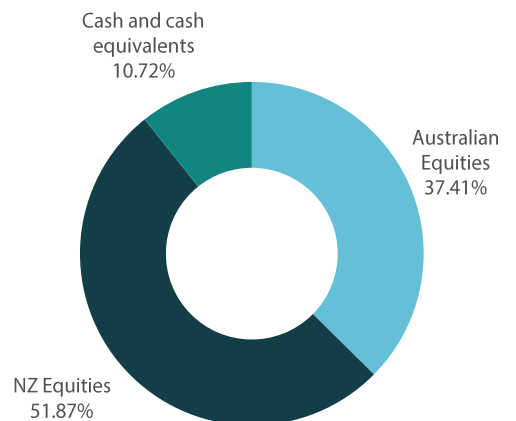
Objective

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^{1,2}



Asset Allocation



| Contribution To Performance* | | Top 10 Holdings (% of fund) | | | |
|------------------------------|-----------------------|-----------------------------|-----------|---------------------|------|
| What Helped: | What Hurt: | Infratil | 11.76 | Aristocrat Leisure | 6.77 |
| Ryman Healthcare | Spark | Contact Energy | 10.82 | Worley | 6.45 |
| Infratil | Arcadium Lithium | NextDC | 9.29 | Ingenia Communities | 6.24 |
| Contact Energy | SkyCity Entertainment | Summerset | 8.37 | Waypoint REIT | 5.99 |
| | | Spark New Zealand | 7.38 | Ryman Healthcare | 5.43 |
| | | Number of holdings | 13 | | |

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

Market Commentary

Weak economic data and the unwind of the carry trade in Japan saw markets sell off aggressively early in the month. More positive economic data came out shortly after which resulted in a remarkably quick turnaround. In the first three days of the month the Japanese Nikkei 225 index fell 19.5%, with one of the days down 12.4%. The following day saw the index recover 10.2% and by the end of the month was only down 1.1%. While not to the same magnitude, other markets also showed large volatility during the month. Along with economic data and the carry trade unwind, company earnings results also pushed returns around. In New Zealand the Reserve Bank followed through on its dovish statement in July and cut the Official Cash Rate by 0.25%. This was accompanied by a much more aggressive rate cut track than was provided in its last update in May. While this was initially rewarded by a move up in the NZX 50 index, the reality of the weak economy showed up in earnings results and the index drifted lower to end the month up 0.4%, down from its intra month high of 2.6%.

Fund Commentary

The largest positive contributors to the fund's return were positions in **Ryman Healthcare** (RYM), **Infratil** (IFT) and **Contact Energy** (CEN). With no stock specific news, RYM was assisted by the cut in the OCR and ended the month up 7.1%. IFT bounced back from a relatively weak July and rose 2.4% on no specific news. Electricity sector stocks received a lot of attention during the month as low hydro lake levels and a gas shortages flowed through to high electricity prices and stressed some customers. CEN delivered a result in line with expectations and rose 1.6% and showed no material signs that the current environment would impact its earnings for the year ahead.

The largest negative contributors to the fund's return were from positions in **Spark** (SPK), **Arcadium Lithium** (LTM) and **SkyCity Entertainment** (SKC). SPK delivered a negative 10% return. The company disappointed the market by providing an earnings result below the bottom-end of their guidance range. Spark have outlined credible ways in which they can improve profitability for FY25 and beyond. In light of weak lithium prices, LTM announced the deferral of several projects. The negative sentiment around lithium prices weighed on LTM and ended the month down 17.4% (in AUD). The weak economic environment weighed on SKC's earnings and the next few months are unlikely to see a turnaround. Regulatory issues have also impacted the stock recently. SKC ended the month down 4.5%.

Portfolio changes over the month included adding to our positions in **Worley** (WOR), RYM, **Mainfreight** (MFT), **Ingenia Communities** (INA) and CEN. The fund's position in SPK was reduced while the position in Channel Infrastructure (CHI) was divested. The fund also bought and sold a position in Sky Network Television (SKT) during the month.

(**Bold** denotes stocks held in the portfolio).

Key Fund Facts

| | | | | |
|--|----------------------|---|---------------------------|-------------|
| Estimated annual fund charges (incl. GST) | Hedging: | 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. | Strategy Launch: | August 2006 |
| Wholesale: Negotiated outside of the unit price. 1.15%. refer PDS for more details. | Exclusions: | Controversial weapons (including but not limited to cluster munitions and chemical, biological and nuclear weapons). | Strategy size: | \$45.3m |
| Retail: | Restrictions: | Tobacco stocks, fossil fuels. 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 | | | | |

Compliance

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

Contact Us

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