

Nikko AM SRI Equity Strategy

Monthly Update 31 August 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 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 was down 0.1% for the month, and behind the index return.
- The weak economic environment showed up in a number of earnings announcements for companies who released their June period ending results.
- Overweight positions in Channel Infrastructure, Resmed, and Sky Network Television added value. Overweight positions in A2 Milk, Spark, and an underweight (nil holding) in Vista detracted from value.

Performance

	One month	Three months	One year	Three years (p.a.)	Five years (p.a.)	Ten years (p.a.)
Wholesale¹	-0.11%	4.37%	9.11%	0.55%	6.16%	12.10%
Benchmark²	0.40%	5.06%	8.72%	-1.18%	3.74%	10.16%
Retail³	-0.19%	4.10%	8.04%			
KiwiSaver⁴	-0.19%	4.07%	8.03%	-0.56%	4.04%	

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.



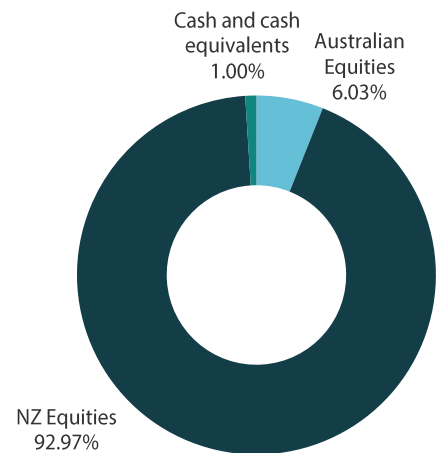
Overview

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				Sector Allocation (% of fund)		
What Helped:		What Hurt:		Health care	30.66%	27.27%
Channel Infrastructure	OW	A2 Milk	OW	Industrials	26.31%	27.87%
Resmed	OW	Spark	OW	Utilities	16.75%	17.06%
Sky Network Television	OW	Vista	NH	Communication services	11.02%	8.56%
OW: overweight; UW: underweight; NH: no holdings; RS: restricted stock				Real estate	5.63%	8.25%
Top 10 Holdings (% of fund)				Consumer staples	4.49%	4.49%
Fisher & Paykel Healthcare	15.76	Spark New Zealand	6.28	Information technology	1.55%	1.61%
Infratil	10.27	EBOS	5.01	Energy	1.33%	0.34%
Auckland International Airport	7.92	Mainfreight	4.85	Cash and cash equivalents	1.00%	0.00
Contact Energy	7.13	A2 Milk	4.49	Financials	0.57%	2.41%
Meridian Energy	6.56	Summerset	3.94	Materials	0.35%	0.38%
				Consumer discretionary	0.34%	1.76%
				Number of holdings	32	50

Market Commentary

Weak economic data and the unwind of the carry trade in Japan saw a severe market sell off early in the month. More positive economic data came out shortly after, resulting 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 subsequent trading session saw the index recover 10.2%, and by the end of the month it was only down 1.1%. Other markets also showed elevated volatility during the month albeit not to the same magnitude. Along with economic data and the carry trade unwind, company earnings results heavily impacted returns. In New Zealand, the Reserve Bank followed through on its dovish statement in July and cut the Official Cash Rate by 0.25%, surprising some market participants and included a much more aggressive rate cut track than indicated at the last update. While this was initially rewarded by a move up in the NZX 50 index, the reality of the weak economy revealed itself 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 relative return were overweight positions in **Channel Infrastructure (CHI)**, **Resmed (RMD)**, and **Sky Network Television (SKT)**. CHI delivered a positive 14% return. The company reported a solid first half result. Volumes are tracking ahead of expectations meaning it should be on track to reach the top end of FY25 guidance. RMD delivered a positive 9% return. The company provided its 4QFY24 (June) result, demonstrating a particularly strong profit margin, and outlook for FY25. RMD also soothed concerns relating to novel weight loss medications known as GLP-1s by evidencing that it is a net beneficiary, given interest in the medication acts as a tailwind for sleep apnoea diagnosis. SKT delivered a positive 7% return. The company produced a credible result considering the tough economic back drop. Importantly the dividend target of at least 30cps in 2026 was retained.

The largest negative contributors to relative return were from overweight positions **A2 Milk (ATM)** and **Spark (SPK)**, and an underweight (nil holding) in **Vista (VGL)**. ATM delivered a negative 23% return. The company revealed that its first half FY25 performance will be hindered by stock shortages, believed to be a function of better-than-expected trading during 4QFY24, and limited flexibility offered by their supplier. The supply chain issues are expected to be completely resolved within the next few months. A2 Milk reached record high market share in China, becoming one of the top five largest infant formula brands in the country. 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 it can improve profitability for FY25 and beyond. VGL delivered a positive 24% return. The company's first half FY24 result was broadly in line with expectations. There was a positive surprise regarding the profit margin outlook, leading to earnings upgrades for FY25. The margin expansion helps validate the financial benefits that should be attained as part of their cloud migration strategy.

Key portfolio changes during the month included adding to positions in **Port of Tauranga (POT)**, **Resmed (RMD)**, and **Centuria Industrial REIT (CIP)**. In addition, reducing positions in **Heartland (HGH)**, **Freightways (FRW)**, and **Channel Infrastructure (CHI)**. (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 to PDS for more details.	Exclusions:	Controversial weapons (including but not limited to cluster munitions and chemical, biological and nuclear weapons).	Strategy size:	\$65.5m
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

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