

Nikko AM Concentrated Equity Strategy

Monthly Update 30 September 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

- While volatile over the quarter, global equity markets generally posted solid returns for the period as key central banks cut rates.
- The United States S&P 500 index rose 5.5%, the Japanese Nikkei 225 fell 4.2%, the UK FTSE 100 index increased 0.9%, the Australian ASX 200 index gained 7.8% and the MSCI World index ended the quarter up 5.0% (in local terms).
- The S&P/NZX 50 index ended the quarter up 6.4%.

Fund Highlights

- The fund ended the quarter up 4.1%.
- The weak economic environment in New Zealand showed up in a number of earnings announcements for companies who released their June period ending results.
- The month of August saw several large capital raisings with NextDC raising AU\$550m, Infratil \$1.4b and Fletcher Building \$700m.
- The fund's positions in Summerset, Waypoint REIT and Aristocrat Leisure added value while positions in Spark, Contact Energy and Arcadium Lithium detracted from value.

Performance

	One month	Three months	One year	Three years (p.a.)	Five years (p.a.)	Ten years (p.a.)
Wholesale¹	0.96%	4.19%	13.38%	0.06%	6.79%	11.60%
Benchmark²	0.81%	2.52%	10.50%	8.88%	7.49%	7.33%
Retail³	0.87%	4.02%	12.02%	-1.10%	5.30%	9.56%
S&P/NZX50⁴	0.05%	6.37%	10.84%	-1.37%	3.39%	10.04%

1. Returns are before tax and before the deduction of fees and including tax credits (if any).
2. Benchmark: RBNZ Official Cash Rate plus 5% per annum. No tax or fees.
3. Returns are before tax and after the deduction of fees and expenses and including tax credits (if any).
4. 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.

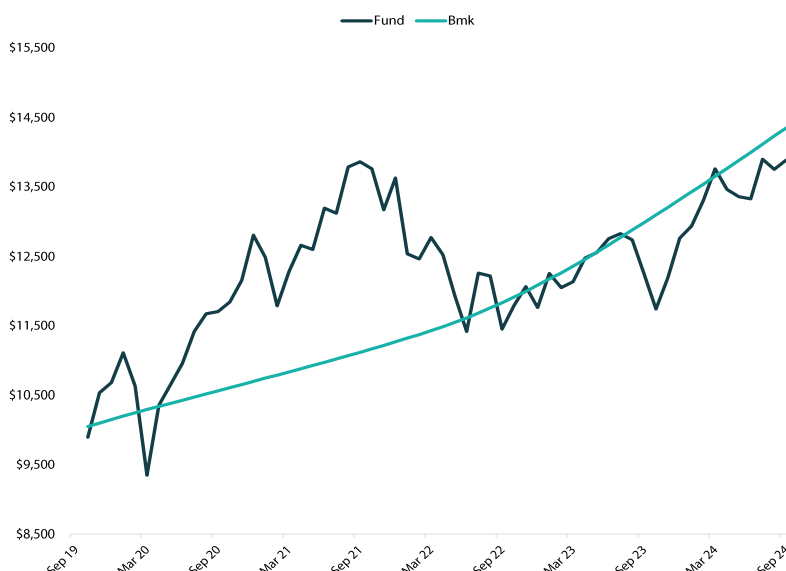
Overview

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.

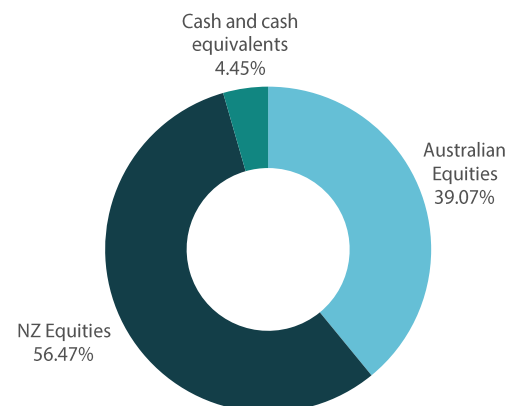
Objective

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	11.46	Aristocrat Leisure	6.21
Summerset	Spark	NextDC	10.96	Spark	6.17
Waypoint REIT	Contact Energy	Contact Energy	10.86	Waypoint REIT	6.06
Aristocrat Leisure	Arcadium Lithium	Summerset	8.81	Ingenia Communities	6.05
		Worley	6.95	Mainfreight	5.38
		Number of holdings			16

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

Market Commentary

Early in the quarter saw global markets impacted by a rotation away from large cap tech related stocks along with rate cuts and the prospect of rate cuts. August was impacted by weak economic data and the unwind of the carry trade in Japan which saw markets sell off aggressively early in the month. More positive economic data came out shortly after which resulted in a remarkably quick turnaround. September was assisted by a 50bp rate cut by the US Federal Reserve and a large stimulus package in China aimed at restoring confidence in the economy. In New Zealand the RBNZ surprised markets in July with a much more dovish statement and this was followed up by a cut in the OCR in August. This led to the equity market producing a strong return in July and most of August before the reality of the weak economy was shown in earnings results from companies. In September Auckland International Airport conducted a \$1.4 billion capital raising, the largest ever in New Zealand outside of an Initial Public Offering. This was followed by Fletcher Building raising \$700m to improve its balance sheet. The combination of these two weighed on the market as investors funded their participation in them by selling other stocks.

Fund Commentary

The largest positive contributors to the fund's return were positions in **Summerset (SUM)**, **Waypoint REIT (WPR)** and **Aristocrat Leisure (ALL)**. While SUM released its half year result during the period, the driving force for the return of the stock was the change in stance from the Reserve Bank and ultimately the OCR cut. SUM rose 27.0% over the quarter. WPR announced a solid half year earnings result, but the stock price was driven by a strong performance of Australian property stocks in general. WPR rose 23.6% (in AUD) over the period. ALL continues to rise post its strong earnings result announced in May. In addition, ALL has been successful in gaining an injunction against Light in Wonder (LNW) in the United States with regards to intellectual property and LNW's Dragon Train gaming machines. ALL gained 17.8% (in AUD).

The largest negative contributors to the fund's return were from positions in **Spark (SPK)**, **Arcadium Lithium (LTM)** and **Contact Energy (CEN)**. SPK disappointed the market by providing an earnings result below the bottom-end of their guidance range and ended the quarter down 23.0%. SPK is also being impacted by the possibility that it will be removed from a large global index and some investors are positioning themselves ahead of this by selling the stock. CEN announced a takeover offer of Manawa Energy (MNW) but the main driver of its performance over the quarter was disappointing investors with its dividend profile over the next few years. CEN ended the quarter down 5.9%. 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 quarter down 14.0% (in AUD).

Portfolio changes over the quarter included adding to our positions in **Worley (WOR)**, **Ryman Healthcare (RYM)**, **Mainfreight (MFT)** and **NextDC (NXT)**. A new position was established in **Auckland International Airport (AIA)**. Positions in ALL, **Infratil (IFT)** and SPK were reduced. Positions in EBOS (EBO) and Channel Infrastructure (CHI) were divested while a position in Fletcher Building (FBU) was added and divested during the period. (**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:	\$45.5m
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 quarter.

Contact Us

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