

# Nikko AM SRI Equity Strategy

Monthly Update 30 September 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

- 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 5.8%, 0.6% behind the index return.
- The weak economic environment in New Zealand showed up in a number of earnings announcements for companies that released their June period ending results.
- 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.
- The month of August saw several large capital raisings with NextDC raising AU\$550m, Infratil \$1.4b and Fletcher Building \$700m.
- Overweight positions in Summerset, Resmed, and Auckland Airport added value. Overweight positions in Contact, Spark, and underweight Ports of Tauranga 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>	0.68%	5.81%	11.90%	0.52%	6.04%	11.95%
<b>Benchmark<sup>2</sup></b>	0.05%	6.37%	10.84%	-1.37%	3.39%	10.04%
<b>Retail<sup>3</sup></b>	0.55%	5.50%	10.76%			
<b>KiwiSaver<sup>4</sup></b>	0.53%	5.46%	10.71%	-0.63%	3.83%	

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<sup>1,2</sup>



## 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.

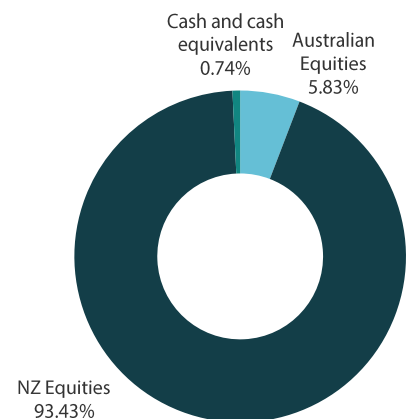
## Overview

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			
<b>What Helped:</b>		<b>What Hurt:</b>	
Summerset	OW	Contact	OW
Resmed	OW	Spark	OW
Auckland Airport	OW	Ports of Tauranga	UW

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

Top 10 Holdings (% of fund)			
Fisher & Paykel Healthcare	15.67	Spark	5.15
Infratil	11.07	A2 Milk	5.11
Auckland International Airport	9.17	Mainfreight	5.07
Contact Energy	7.44	EBOS	4.67
Meridian Energy	6.57	Summerset	4.01

Sector Allocation (% of fund)	Fund	Benchmark
Industrials	28.97%	29.92%
Health care	28.59%	26.63%
Utilities	16.88%	16.61%
Communication services	9.37%	7.72%
Real estate	6.56%	7.71%
Consumer staples	5.11%	4.96%
Information technology	1.55%	1.54%
Energy	1.08%	0.45%
Cash and cash equivalents	0.74%	0.00%
Consumer discretionary	0.39%	1.68%
Financials	0.38%	2.35%
Materials	0.37%	0.42%
<b>Number of holdings</b>	<b>32</b>	<b>50</b>

## 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 relative return were overweight positions in **Summerset (SUM)**, **Resmed (RMD)**, and **Auckland Airport (AIA)**. SUM delivered a positive 27.0% return. All members of the interest-rate sensitive retirement sector performed very well over the quarter driven by a takeover offer for Arvida at a 65% premium, followed by a dovish shift in stance from the Reserve Bank and subsequent OCR cut commencing the rate easing cycle. RMD delivered a positive 20.5% return. The company provided its FY24 result, which included a particularly strong profit margin, in addition to a robust outlook for FY25. RMD also soothed concerns relating to novel weight loss medications known as GLP-1s. AIA delivered a negative 1.2% return. The company conducted a \$1.4 billion capital raising, the largest ever in New Zealand outside of an Initial Public Offering. The fund used the event and discounted raise price to move to an overweight position.

The largest negative contributors to relative return were from overweight positions **Contact (CEN)**, **Spark (SPK)**, and underweight **Ports of Tauranga (POT)**. CEN delivered a negative 5.9% return. The main driver of performance over the period was with regards to the company disappointing investors with a lower than previously expected dividend outlook for the next few years. In addition, CEN announced a takeover offer for Manawa Energy (MNW). SPK delivered a negative 23.0% return. The company surprised the market with an earnings result below the bottom-end of its guidance range. In addition, SPK is 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. POT delivered a positive 28.8% return. After a weak performance over the June quarter, the company recovered through the September quarter.

Key portfolio changes during the month included establishing new positions in **Kiwi Property Group (KPG)**, **Port of Tauranga (POT)**, **Stride Property Group (SPG)**, and **Centuria Industrial REIT (CIP)**. Exiting Arvida (ARV). Adding to positions in **Resmed (RMD)**, **Precinct (PCT)**, and **Worley (WOR)**. Reducing positions in **Chorus (CNU)**, **NextDC (NXT)**, and **Mercury (MCY)**. (**Bold** denotes stocks held in the portfolio).

## Key Fund Facts

<b>Estimated annual fund charges (incl. GST)</b>	<b>Foreign Currency Exposure:</b> 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> January 2008
<b>Wholesale:</b> Negotiated outside of the unit price. <b>Retail:</b> 0.95%, refer to PDS for more details. <b>KiwiSaver:</b> 0.95%, 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> \$62.1m
<b>Distributions:</b>	<b>Restrictions:</b> 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 <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>Wholesale:</b> Calendar quarter <b>Retail:</b> March and September <b>KiwiSaver:</b> Does not distribute		

## Compliance

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

## Contact Us

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