

# Nikko AM SRI Equity Strategy

Monthly Update 31 December 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 quarter as earnings results, the U.S. election outcome and central bank rate cuts impacted returns.
- The United States S&P 500 index rose 2.1%, the Japanese Nikkei 225 gained 5.2%, the UK FTSE 100 index declined 0.8%, the Australian ASX 200 index lost 0.8% and the MSCI World index ended the quarter up 1.3% (in local terms).
- The S&P/NZX 50 index ended the quarter up 5.6%.

## Fund Highlights

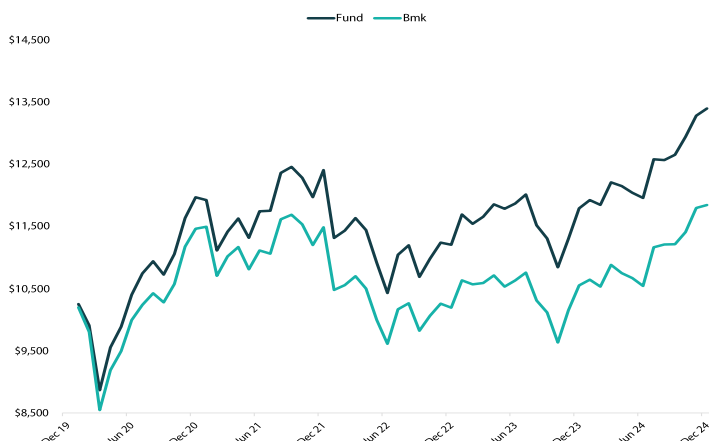
- The fund ended the quarter up 5.9%, 0.3% ahead of the index return.
- A meaningful number of companies released earnings results for the period ending 30 September.
- Arcadium Lithium received a takeover bid from Rio Tinto.
- Freightways and Scales had large shareholders sell their positions that were approximately \$110m and \$80m in value.
- Auckland City Council sold its remaining shares in Auckland International Airport at approximately \$1.3b in value.
- Channel Infrastructure raised \$50m to fund infrastructure investments supporting new customer contracts.
- Spark was removed from the MSCI World standard index while Infratil was added to the index.
- Overweight positions Arcadium Lithium and Contact Energy, and an underweight position Mercury NZ added value. Overweight positions NextDC, Ingenia Communities and Worley 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>	0.88%	5.88%	13.62%	2.60%	6.02%	11.90%
<b>Benchmark<sup>2</sup></b>	0.40%	5.62%	12.24%	1.03%	3.44%	9.98%
<b>Retail<sup>3</sup></b>	0.80%	5.54%	12.38%	2.06%		
<b>KiwiSaver<sup>4</sup></b>	0.78%	5.47%	12.23%	1.50%	3.93%	

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.



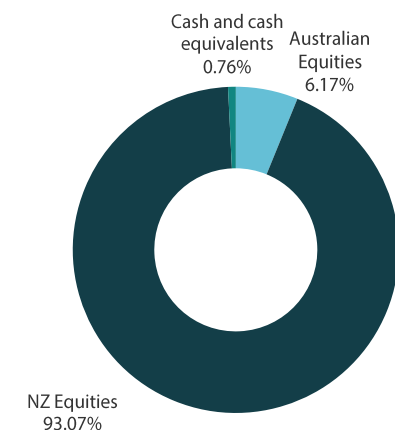
## Overview

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>	
Arcadium Lithium	OW	NextDC	OW
Contact Energy	OW	Ingenia Communities	OW
Mercury NZ	UW	Worley	OW

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

Top 10 Holdings (% of fund)			
Fisher & Paykel Healthcare	16.05	Spark New Zealand	4.84
Auckland International Airport	10.53	Mainfreight	4.63
Infratil	10.50	Summerset	4.09
Contact Energy	7.72	EBOS	3.80
Meridian Energy	6.11	A2 Milk	3.78

Sector Allocation (% of fund)	Fund	Benchmark
Health care	28.08	26.26
Industrials	20.03	22.71
Utilities	15.86	16.29
Financials	10.82	11.71
Communication services	8.70	7.24
Real estate	6.57	7.01
Consumer staples	5.14	4.46
Information technology	1.76	1.72
Energy	1.14	0.50
Materials	0.87	0.38
Cash and cash equivalents	0.76	0.00
Consumer discretionary	0.27	1.72
<b>Number of holdings</b>	<b>33</b>	<b>50</b>

## Market Commentary

Global equity markets had mixed performance over the quarter as earnings results, the U.S. election outcome and central bank rate cuts impacted returns. After a long build up the United States election arrived, and Donald Trump was elected President. Markets started to focus on potential policy changes that would impact immigration, healthcare, climate change / renewable energy / fossil fuels, and tariffs. Earnings results were also a focus of investors over the quarter. Looking back over the year, all key equity markets posted strong returns with the U.S. and Japanese markets the stand outs. The S&P 500 index rose 23.3% while the Nikkei 225 index rose 19.2%. This follows on from their 2023 returns of 24.2% and 28.2% respectively. A key driver for equity markets over the year was the commencement of central banks cutting rates, against a backdrop of inflation rates returning to more acceptable levels in most countries. The easing cycle continued in the final quarter of the year with the Reserve Bank of New Zealand cutting the Official Cash Rate by a total of 100bps. Another noteworthy move was the strength of the USD which saw the NZD depreciate 12.2% over the quarter.

## Fund Commentary

The largest positive contributors to the fund's relative return were overweight positions **Arcadium Lithium** (LTM) and **Contact Energy** (CEN), and an underweight position **Mercury NZ** (MCY). LTM delivered a positive 93.4% return. The company received a takeover bid from Rio Tinto at US\$5.85 per share which the LTM board endorsed, and subsequently approved by shareholders. CEN delivered a positive 16.3% return. Following a relatively weak September quarter, CEN bounced back in the December quarter, aided by speculation that it may be added to the MSCI World Standard index in 2025. MCY delivered a negative 9.3% return. The share price decline occurred primarily in December, in the absence of any material negative company news flow. Speculation that it may be removed from the MSCI World Standard index in 2025 would likely be a contributing factor.

The largest negative contributors to relative return were from overweight positions **NextDC** (NXT), **Ingenia Communities** (INA) and **Worley** (WOR). Given the relatively weak Australian market over the quarter, Australian portfolio companies were generally a drag on fund performance. NXT delivered a negative 13.9% return. The market continues to digest its \$550m capital raise from September. INA delivered a negative 9.0% return. Despite reaffirming guidance, INA was a casualty of the weak Australian market with the real estate sector particularly soft. WOR delivered a negative 7.6% return. The stock moved on no specific news.

Key portfolio changes during the quarter included establishing a new position in **Scales** (SCL), as part of the large shareholder sell-down. Adding to positions in **Kiwi Property Group** (KPG), **Fletcher Building** (FBU) completion of capital raise, **Centuria Industrial REIT** (CIP), **Freightways** (FRW) large shareholder sell-down, **Worley** (WOR) and **Ryman** (RYM). Reducing positions in **Contact** (CEN), **Auckland Airport** (AIA), **EBOS** (EBO), **Resmed** (RMD), and **Mercury NZ** (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 to 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>	\$96.7m
<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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