

Nikko AM Concentrated Equity Strategy

Monthly Update 31 December 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 quarter as earnings results, the US election result and central banks cutting rates impacted on 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 4.7%.
- A number of companies released earnings results for the period ending 30 September during the month.
- Arcadium Lithium received a takeover bid from Rio Tinto at a price around 100% above where it was trading.
- Spark was removed from the MSCI standard index while Infratil was added to the index.
- The fund's positions in Arcadium Lithium (LTM), Aristocrat Leisure and Contact Energy added value while positions in NextDC, Waypoint REIT and Worley detracted from value.

Performance

	One month	Three months	One year	Three years (p.a.)	Five years (p.a.)	Ten years (p.a.)
Wholesale¹	-0.61%	4.70%	13.92%	2.17%	6.36%	11.12%
Benchmark²	0.75%	2.34%	10.27%	9.23%	7.67%	7.36%
Retail³	-0.67%	4.28%	12.46%	1.02%	4.90%	9.16%
S&P/NZX50⁴	0.40%	5.62%	12.24%	1.03%	3.44%	9.98%

- 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.

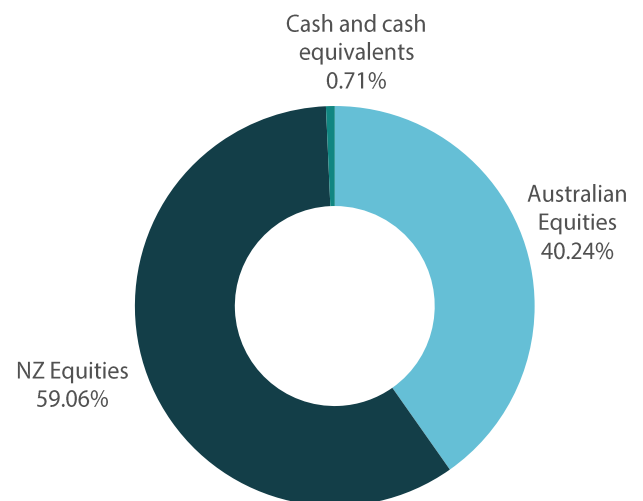
Objective

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:	Contact Energy	10.75	Worley	7.68
Arcadium Lithium	NextDC	NextDC	9.69	Ingenia Communities	6.30
Aristocrat Leisure	Waypoint REIT	Infratil	9.62	Aristocrat Leisure	6.10
Contact Energy	Worley	Summerset	8.41	Waypoint REIT	5.54
*Absolute contribution – not relative to S&P/NZX50 Index		Spark NZ	7.73	Ryman Healthcare	5.45
Number of holdings					15

Market Commentary

Global equity markets had a mixed performance over the quarter as earnings results, the US election result and central banks cutting rates impacted on 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 markets over the quarter.

Looking back over the year all key markets posted strong returns with the US and Japanese markets the stand outs. The S&P 500 index rose 23.3% while the Nikkei 225 index rose 19.2% which follows on from their 2023 returns of 24.2% and 28.2% respectively. With inflation under control in most countries a key driver for markets over the year was the commencement of central banks cutting rates. This continued in the final quarter of the year with the Reserve Bank of New Zealand cutting the Official Cash Rate by 100bps. Another noteworthy move was the strength of the USD which saw the NZD depreciate 12.2% versus it over the quarter.

Fund Commentary

The largest positive contributors to the fund's return were positions in **Arcadium Lithium** (LTM), **Aristocrat Leisure** (ALL) and **Contact Energy** (CEN). During the quarter LTM received a takeover bid from Rio Tinto at US\$5.85 per share which the LTM board endorsed and was approved by shareholders. On the back of this, LTM rose 93.4% (in AUD) over the quarter. ALL continued its recent strong run, up 17.4% (in AUD), helped by a solid FY24 earnings result. After 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 early 2025. CEN was up 16.3% over the period.

The largest negative contributors to the fund's return were from positions **NextDC** (NXT), **Waypoint REIT** (WPR) and **Worley** (WOR). Given the relatively weak Australian market over the quarter, Australian held stocks were generally a drag to fund performance. NXT fell 13.9% (in AUD) as it continues to digest its \$550m capital raise from September while WOR gave up 7.6% (in AUD) on no specific news. WPR was a casualty of the weak Australian market with the real estate sector particularly weak. WPR ended the quarter down 10.2% (in AUD).

Portfolio changes over the quarter included adding to our positions in **Ingenia** (INA), **Meridian Energy** (MEL), **NextDC** (NXT), **Ryman Healthcare** (RYM), **Spark** (SPK), **Sky Network Television** (SKT), WPR and WOR. The fund's positions in **Infratil** (IFT), ALL, CEN and **Summerset** (SUM) were reduced. The fund's position in Auckland International Airport was divested.

(**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.	Exclusions:	Controversial weapons (including but not limited to cluster munitions and chemical, biological and nuclear weapons).	Strategy size:	\$51.6m
Retail: 1.15%. refer PDS for more details.	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.

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