

# Nikko AM Concentrated Equity Strategy

Monthly Update 31 March 2025

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 were weak over the quarter as the impact of proposed tariffs by the USA raised concerns around the impact on global growth and inflation.
- The United States S&P 500 index fell 4.6%, the Japanese Nikkei 225 dropped 10.7%, the UK FTSE 100 index rose 5.0%, the Australian ASX 200 index lost 2.8% and the MSCI World index ended the quarter down 2.2% (in local terms).
- The S&P/NZX 50 index ended the quarter down 6.2%.

## Fund Highlights

- The fund ended the quarter down 9.2%.
- It was a very busy quarter with news flow as companies reported their earnings results for the period ending December 2024.
- Ryman Healthcare surprised the market with a \$1b capital raising at a 29% discount to the last traded price in order to materially reduce debt and gearing levels.
- The fund's positions in Ingenia Communities, Arcadium Lithium and Worley added value while positions in Ryman Healthcare, NextDC and Spark 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>     | -5.71%    | -9.16%       | -4.02%   | 1.12%              | 7.16%             | 9.32%            |
| <b>Benchmark<sup>2</sup></b>     | 0.71%     | 2.15%        | 9.88%    | 9.49%              | 7.82%             | 7.37%            |
| <b>Retail<sup>3</sup></b>        | -5.74%    | -9.34%       | -5.13%   | -0.01%             | 5.63%             | 7.44%            |
| <b>S&amp;P/NZX50<sup>4</sup></b> | -2.43%    | -6.18%       | 2.11%    | 1.27%              | 5.39%             | 8.73%            |

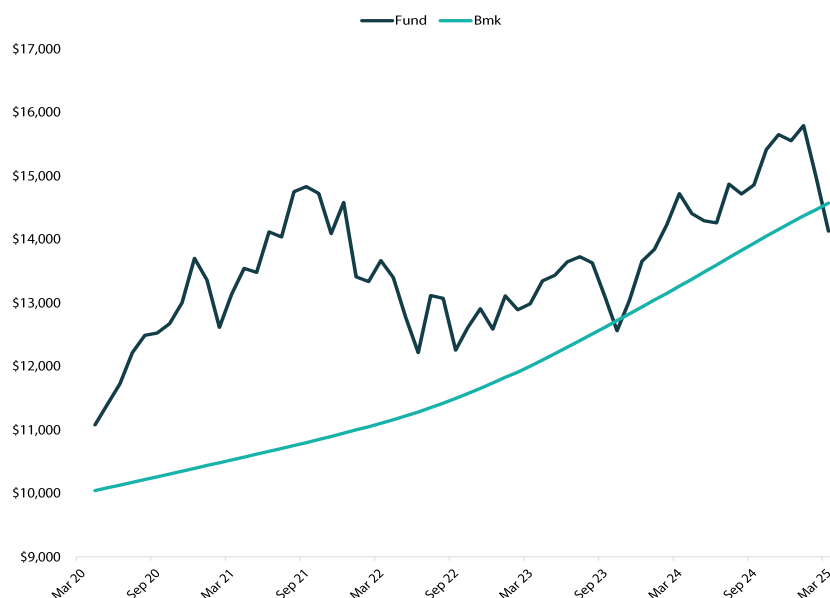
1. Returns are before tax and before the deduction of fees and including tax credits (if any).

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.

## Five-Year Cumulative Performance, \$10,000 invested<sup>1,2</sup>



## 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.

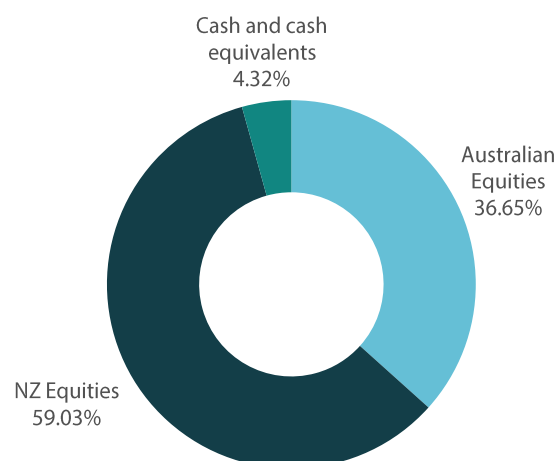
## Overview

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.

## Asset Allocation



| Contribution To Performance* |                   | Top 10 Holdings (% of fund) |           |                     |      |
|------------------------------|-------------------|-----------------------------|-----------|---------------------|------|
| <b>What Helped:</b>          | <b>What Hurt:</b> | Contact Energy              | 10.33     | Spark               | 6.43 |
| Ingenia Communities          | Ryman Healthcare  | Infratil                    | 9.04      | Meridian Energy     | 6.25 |
| Arcadium Lithium             | NextDC            | Summerset                   | 8.00      | Waypoint REIT       | 6.16 |
| Worley                       | Spark             | NextDC                      | 7.67      | Ingenia Communities | 5.91 |
|                              |                   | Worley                      | 7.57      | Ryman Healthcare    | 5.52 |
|                              |                   | <b>Number of holdings</b>   | <b>16</b> |                     |      |

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

## Market Commentary

Global equity markets were mixed over the March quarter with European markets up while most other markets declined, driven by earnings results, proposed tariffs and interest rate cuts. President Trump threatened wide ranging tariffs with likely rates of 25% on Canadian and Mexican goods and an additional 10% on Chinese goods. Further tariffs on other markets and goods were threatened and are likely. The tech heavy Nasdaq index and the Japanese Nikkei index were two markets that saw significant declines, down 10.4% and 10.7% respectively. Investors are assessing the impact of tariffs on global growth and inflation with both having a negative impact on equity markets. New Zealand's largest listed stock, Fisher & Paykel Healthcare, will be impacted given its manufacturing base in Mexico for goods sold into the United States market. Rate cuts by central banks around the world continue with the Reserve Bank of Australia delivering its first rate cut of the cycle. The Reserve Bank of New Zealand also cuts rates with the Official Cash rate 1.75% lower than its peak of 5.5%.

## Fund Commentary

The largest positive contributors to the fund's return were positions in **Ingenia Communities** (INA), **Arcadium Lithium** (LTM) and **Worley** (WOR). Following a weak performance in December, INA had a very strong quarter after upgrading its earnings guidance and delivering a solid half year result. INA rose 19.4% (in AUD) over the quarter. LTM's takeover by Rio Tinto (RIO) was completed during the quarter. During the fund's holding period LTM produced a 11.6% (in AUD) return. WOR produced a solid earnings result but more importantly for investors was that they reconfirmed their full year earnings guidance along with announcing a \$500m share buyback. WOR rose 7.1% (in AUD) over the quarter.

The largest negative contributors to the fund's return were from **Ryman Healthcare** (RYM), **NextDC** (NXT) and **Spark** (SPK). RYM surprised the market with a large \$1b capital raising to reduce debt and gearing levels. RYM also announced a trading update that was worse than the market was anticipating, citing challenging market conditions, heightened competition and impacts from changes to pricing model and organisational restructure. The capital raise was at a large 29% discount to last traded price. The stock fell 36.8% over the period. NXT was caught up in technology stocks being impacted by the almost overnight arrival of the Chinese developed artificial intelligence (AI) engine DeepSeek which purports to require a fraction of the cost to develop and run compared to Western AI engines. There is also nervousness from investors in the potential overbuild of data centres in certain markets which also impacted on NXT. The stock fell 25.0% (in AUD) over the quarter. SPK fell heavily following the fourth downgrade / miss in a row as revenue was challenged from the economic slowdown and competition along with cost out not materialising in the half as investor expected. SPK dropped 24.8% over the quarter.

Portfolio changes over the quarter included adding to our positions in **Infratil** (IFT), **Meridian Energy** (MEL), **Mainfreight** (MFT) and SPK. Our position in RYM was added to as part of the capital raising. New positions were established in **Channel Infrastructure** (CHI) and **ResMed** (RMD). The fund's positions in **Aristocrat Leisure** (ALL), **Contact Energy** (CEN), NXT, WOR and INA were reduced. The fund's position in Arcadium Lithium was divested ahead of the takeover completing. (**Bold** denotes stocks held in the portfolio).

## Key Fund Facts

|  |                                       |                      |   |                           |             |
|--|---------------------------------------|----------------------|---|---------------------------|-------------|
| <b>Estimated annual fund charges (incl. GST)</b> |                                       | <b>Hedging:</b>      | 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.  | <b>Strategy Launch:</b>   | August 2006 |
| <b>Wholesale:</b>                                | Negotiated outside of the unit price. | <b>Exclusions:</b>   | Controversial weapons (including but not limited to cluster munitions and chemical, biological and nuclear weapons).  | <b>Strategy size:</b>     | \$47m       |
| <b>Retail:</b>                                   | 1.15%. refer PDS for more details.    | <b>Restrictions:</b> | Tobacco stocks, fossil fuels. 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>Distributions:</b>                            |                                       |                      |   |                           |             |
| <b>Wholesale:</b>                                | Calendar quarter                      |                      |   |                           |             |
| <b>Retail:</b>                                   | March and September                   |                      |   |                           |             |

## Compliance

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

## Contact Us

[www.nikkoam.co.nz](http://www.nikkoam.co.nz) | [nzenquiries@nikkoam.com](mailto:nzenquiries@nikkoam.com)

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