

# Nikko AM SRI Equity Strategy

Monthly Update 28 February 2025

Assets are held in the Nikko AM Wholesale SRI Equity Fund. The Nikko AM SRI Equity Fund (retail) and the GoalsGetter KiwiSaver Scheme Nikko AM SRI Equity Fund invest in units in the wholesale fund, which the commentary refers to.

## Market Overview

- Global equity markets were mixed over February with European markets up while most other markets declined. Drivers included earnings results, tariffs proposed by the US and the risk of a trade war, geopolitics, and interest rate cuts.
- The United States S&P 500 index fell 1.4%, the Japanese Nikkei 225 dropped 6.1%, the UK FTSE 100 index rose 1.6%, the Australian ASX 200 index lost 3.8% and the MSCI World index ended the month down 0.8% (in local terms).
- The S&P/NZX 50 index was down 3.0%.

## Fund Highlights

- The fund ended the month down 3.4%, and behind the index return.
- It was a very busy month with news flow as companies reported their earnings results for the period ending December 2024.
- Ryman Healthcare surprised the market with a \$1 billion capital raising at a 29% discount to the last traded price to materially reduce debt and gearing levels.
- Overweight positions Worley, A2 Milk, and an underweight Gentrack added value. Overweight positions Ryman Healthcare, Spark, and an underweight position Fletcher Building 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>	-3.38%	-3.37%	8.32%	3.93%	5.31%	10.81%
<b>Benchmark<sup>2</sup></b>	-2.98%	-3.45%	8.14%	2.56%	3.04%	8.95%
<b>Retail<sup>3</sup></b>	-3.43%	-3.57%	7.17%	2.95%		
<b>KiwiSaver<sup>4</sup></b>	-3.44%	-3.60%	7.01%	2.85%	3.45%	

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.



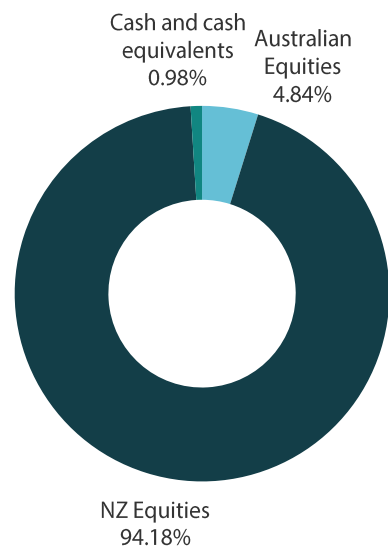
## Overview

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>	
Worley	OW	Ryman Healthcare	OW
A2 Milk	OW	Spark	OW
Gentrack	NH	Fletcher Building	UW

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

Top 10 Holdings (% of fund)			
Fisher & Paykel Healthcare	14.88	Mainfreight	5.38
Infratil	10.09	A2 Milk	4.95
Auckland International Airport	9.79	Spark New Zealand	4.33
Contact Energy	7.27	EBOS	4.24
Meridian Energy	6.63	Ryman Healthcare	3.97

Sector Allocation (% of fund)	Fund	Benchmark
Health care	27.76	25.11
Industrials	20.57	23.26
Utilities	16.45	16.75
Financials	10.38	10.83
Communication services	8.20	6.37
Real estate	6.63	7.20
Consumer staples	6.05	6.09
Information technology	1.66	1.78
Energy	1.07	0.54
Cash and cash equivalents	0.98	0.00
Consumer discretionary	0.26	1.67
Materials	0.00	0.41
<b>Number of holdings</b>	<b>32</b>	<b>50</b>

## Market Commentary

Global equity markets were mixed over February 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 proposing rates of 25% on Canadian and Mexican goods and an additional 10% on Chinese goods. Further tariffs on other markets and goods were threatened. New Zealand's largest listed stock, Fisher & Paykel Healthcare, would 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 commencing its rate cut of the cycle, with the first cut in four years. The Reserve Bank of New Zealand also cut rates with the Official Cash rate now 1.75% lower than its peak of 5.5%. Earnings results were also a driver of stock specific returns over the month. The last day of February saw elevated trading across the NZX as MSCI index adjustments occurred. As part of these adjustments Contact Energy was added to the MSCI standard index while Mercury was removed.

## Fund Commentary

The largest positive contributors to the fund's relative return were overweight positions **Worley** (WOR), **A2 Milk** (ATM), and underweight **Gentrack** (GTK). WOR delivered a positive 5.3% return. The company produced a solid first half FY25 earnings result and of critical importance for investors, reconfirmed the full year FY25 earnings guidance. In addition, a \$500 million share buyback was announced. ATM delivered a positive 37.3% return. The company's FY24 result (August 2024) was plagued by supply-chain related concerns that ATM explained as transient. The market responded with suspicion. Consequently, the first half FY25 result was well received, given its strength and more so, in proving that the issue was indeed short-lived and well-contained. GTK delivered a negative 10.6% return. The stock was the best performer on the NZX 50 index last year yet has pulled back from its lofty highs as some investors take profit in the face of what has been described by management as a transition year for the company.

The largest negative contributors to relative return were from overweight positions in **Ryman Healthcare** (RYM) and **Spark** (SPK) and an underweight position in **Fletcher Building** (FBU). RYM delivered a negative 23.9% return. The company surprised the market with a large \$1 billion capital raising to reset its balance sheet. Debt will be reduced and gearing falls from 37.3% to 23.1%. RYM also provided a weak trading update, citing challenging market conditions, heightened competition, and impacts from changes to the pricing model and organisational restructure. The capital raise was at a large 29% discount to last traded price. SPK delivered a negative 22.0% return. The company produced a disappointing first half FY25 result. It represented the fourth consecutive downgrade over a circa one year period. The drivers included softer revenue due to the economic slowdown and increased competition. FBU delivered a positive 18.5% return. The company provided a first half FY25 result that was roughly in line with market expectations. This buoyed investors given the absence of a FY25 full-year downgrade which some had expected due to ongoing tough economic conditions.

Key portfolio changes during the month included exiting Arcadium Lithium (LTM) ahead of the takeover completion in March. Adding to positions in **ResMed** (RMD), **Kiwi Property** (KPG), **Mainfreight** (MFT). Our position in RYM was added to as part of the capital raising. Reducing positions in **Ingenia Communities** (INA), **Centuria Industrial REIT** (CIP), and **Waypoint** (WPR). (**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>Exclusions:</b>	Controversial weapons (including but not limited to cluster munitions and chemical, biological and nuclear weapons).	<b>Strategy size:</b>	\$89.8m
<b>Retail:</b>	0.95%, refer to PDS for more details.				
<b>KiwiSaver:</b>	0.95%, refer PDS for more details.				
<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 month.

## Contact Us

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