

Nikko AM Concentrated Equity Strategy

Monthly Update 31 March 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 continued their recent strong run with inflation moving in the right direction, giving comfort that rate increases were at an end.
- The United States S&P 500 index rose 10.2%, the Japanese Nikkei 225 jumped 20.6%, the UK FTSE 100 index gained 2.8%, the Australian ASX 200 index increased 5.3% and the MSCI World index ended the quarter up 9.5% (in local terms).
- The S&P/NZX 50 index ended the quarter up 3.1%.

Fund Highlights

- The fund ended the quarter up 7.8%.
- It was a busy quarter with a number of companies reporting earnings for the period ending December and others updating their earnings guidance for the March period.
- The fund's positions in NextDC, Contact Energy and Ingenia Communities added value while positions in Arcadium Lithium, Spark, and Ryman Healthcare detracted from value.

Performance

	One month	Three months	One year	Three years (p.a.)	Five years (p.a.)	Ten years (p.a.)
Wholesale¹	3.45%	7.82%	13.39%	3.87%	7.81%	12.11%
Benchmark²	0.85%	2.52%	10.49%	8.01%	7.09%	7.22%
Retail³	3.33%	7.46%	12.10%	2.36%	6.32%	10.05%
S&P/NZX50⁴	3.33%	3.13%	2.75%	-0.42%	5.03%	10.04%

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^{1,2}



Portfolio Manager

Michael Sherrock,
Head of Equities



Michael joined Nikko AM in 2006 and covers the Property, 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 charter-holder and holds a Bachelor of Commerce degree from the University of Auckland.

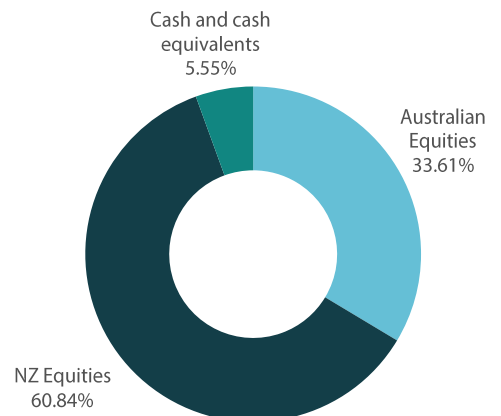
Overview

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)			
What Helped:	What Hurt:	Contact Energy	12.15	Summerset	7.37
NextDC	Arcadium Lithium	Infratil	11.95	Aristocrat Leisure	6.19
Contact Energy	Spark	NextDC	11.28	Ingenia Communities	5.64
Ingenia Communities	Ryman Healthcare	Spark New Zealand	9.72	Mainfreight	5.14
		Fisher & Paykel Healthcare	8.44	Waypoint REIT	4.99
		Number of holdings		14	

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

Market Commentary

After a very strong end to 2023 equity markets continued their move higher - assisted by inflation in most economies moving in the right direction, giving comfort that interest rate increases were at an end. While the next move is down for rates by the Federal Reserve, strength in the US economy leaves the timing of the rate cuts in question. The Reserve Bank of New Zealand left the OCR at 5.5% when they released their Monetary Policy Statement late in February which was more dovish than expected. Company earnings results were also influential in market returns. New Zealand had quite a divergent set of results and associated stock price moves with a high of +47.4% for A2 Milk through to -26.7% for Kathmandu in the S&P/NZX 50 index.

Fund Commentary

The largest positive contributors were positions in **NextDC** (NXT), **Contact Energy** (CEN) and **Ingenia Communities** (INA). NXT jumped 29.6% (in AUD) after announcing a good result but more importantly outlining a strong demand outlook driven by cloud and Artificial Intelligence data storage requirements. INA reported a strong result for the first half of its financial year and ended the quarter 18.8% (in AUD) higher. CEN rose steadily over the quarter assisted by a solid earnings result and late in the quarter announcing that its geothermal development could be online earlier than its previous update. CEN was up 10.5% over the quarter.

The largest negative contributors to the fund's return were from positions in **Arcadium Lithium** (LTM), **Spark** (SPK), and **Ryman Healthcare** (RYM). With the merger complete between Allkem and Livent, LTM started trading in late December and was relatively strong into the end of the year. With weak lithium prices, LTM came under pressure and fell 39.5% (in AUD). After performing well in January, SPK pulled back through the rest of the quarter and was not helped by index fund selling and a half year result which will require a good second half to meet guidance. SPK ended the quarter down 4.5%. RYM announced a downgrade to their guidance for the period ending March with new unit sales in several villages running behind expectations. The issue is put down to not having the amenities that come along with the main building not being available, which slows sales. There was heavy offshore selling and RYM ended the quarter down 22.9%.

Portfolio changes over the quarter included adding RYM to the portfolio while reducing positions in **Fisher & Paykel Healthcare** (FPH), **NXT**, **Summerset** (SUM) and **Ramsay Health Care** (RHC). The funds position in **A2 Milk** (ATM) 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. 1.15%. refer PDS for more details.	Exclusions:	Controversial weapons (including by not limited to cluster munitions and chemical, biological and nuclear weapons).	Strategy size:	\$65.4m
Retail:		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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