

Nikko AM SRI Equity Strategy

Monthly Update 31 March 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 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 3.5% and ahead of the index return.
- It was a busy month with a number of companies reporting earnings for the period ending December and others updating their earnings guidance for the March period.
- Overweight positions NextDC, Summerset, and Contact Energy added value.
- Overweight positions Arcadium Lithium, Ryman Healthcare, and underweight (nil holding) in restricted Sky City detracted value.

Performance

	One month	Three months	One year	Three years (p.a.)	Five years (p.a.)	Ten years (p.a.)
Wholesale¹	3.05%	3.54%	4.74%	2.26%	7.44%	12.17%
Benchmark²	3.33%	3.13%	2.75%	-0.42%	5.03%	10.04%
Retail³	2.97%	3.29%	3.73%			
KiwiSaver⁴	2.97%	3.29%	3.79%	1.16%	5.16%	

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^{1,2}



Portfolio Manager

Michael De Cesare,
Portfolio Manager

Responsible for the SRI Equity Fund. Covers the Communications, Transport and Consumer Staples sectors. Over 12 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.



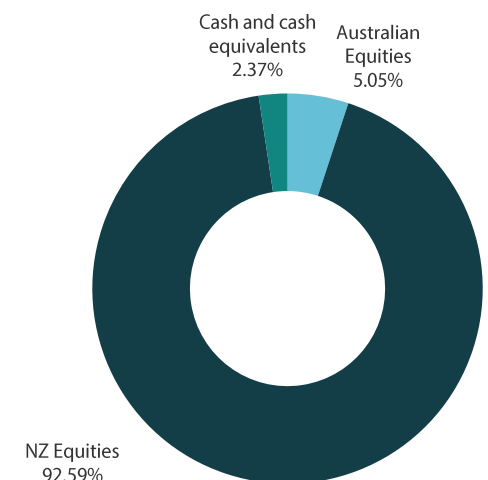
Overview

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			
What Helped:		What Hurt:	
NextDC	OW	Arcadium Lithium	OW
Summerset	OW	Ryman Healthcare	OW
Contact Energy	OW	Sky City	NH

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

Top 10 Holdings (% of fund)			
Fisher & Paykel Healthcare	12.13	Meridian Energy	5.62
Infratil	10.76	Mainfreight	4.60
Auckland International Airport	9.83	EBOS	4.55
Spark New Zealand	8.23	A2 Milk	4.44
Contact Energy	8.21	Summerset	4.44

Sector Allocation (% of fund)	Fund	Benchmark
Industrials	27.52	29.10
Health care	26.25	22.56
Utilities	17.06	17.87
Communication services	14.17	10.34
Consumer staples	4.44	4.97
Real estate	3.09	8.34
Cash and cash equivalents	2.37	0.00
Information technology	2.22	1.42
Energy	1.39	0.31
Consumer discretionary	0.79	2.27
Materials	0.69	0.49
Financials	0.00	2.31
Number of holdings	29	50

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 to the fund's relative return were overweight positions **NextDC** (NXT), **Summerset** (SUM), and **Contact Energy** (CEN). NXT delivered a positive +29.6% return. NextDC announced a solid result while also outlining a very strong outlook. The near-term is still driven by demand for cloud solutions however more clarity was provided about the exponential growth beginning to arrive from hyperscalers' artificial intelligence requirements. SUM delivered a positive +12.6% return. Summerset announced an earnings result that beat expectations, driven by strong sales numbers of new and resale units for the last quarter of 2023. This should provide good momentum into 2024 and points to improving underlying market conditions. In addition, SUM has identified Queensland as a new market to enter to accelerate its growth in Australia. CEN delivered a positive +10.5% return. Contact delivered a solid half year result and announced its geothermal development could be online earlier than its previous update.

The largest negative contributors to relative return were from Overweight positions **Arcadium Lithium** (LTM), **Ryman Healthcare** (RYM), and underweight (nil holding) in restricted **Sky City** (SKC). LTM delivered a negative -39.5% return. Arcadium Lithium is the new entity created through the merger between Allkem and Livent. LTM started trading in late December posting a relatively strong run into the end of the year. However, came under pressure due to weakening lithium prices. RYM delivered a negative -22.9% return. Ryman Healthcare announced a downgrade to their guidance for the period ending March with new unit sales in several villages running behind expectations. The cause of this has been attributed to not having the amenities that come along with the main building which slows sales. SKC is restricted in the fund. It delivered a positive +18.6% return.

Key portfolio changes during the quarter included establishing a new position in **Precinct Property** (PCT). Adding to positions in **Ingenia Communities** (INA) and **Auckland Airport** (AIA). Reducing position in **Freightways** (FRW) and **Ramsay Health Care** (RHC).

(**Bold** denotes stocks held in the portfolio).

Key Fund Facts

Estimated annual fund charges (incl. GST)	Foreign Currency Exposure: 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: January 2008
Wholesale: Negotiated outside of the unit price. Retail: 0.95%, refer to PDS for more details. KiwiSaver: 0.95%, refer PDS for more details.	Exclusions: Controversial weapons (including but not limited to cluster munitions and chemical, biological and nuclear weapons).	Strategy size: \$64.7m
Distributions:	Restrictions: 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 https://www.nikkoam.co.nz/invest/retail .	Buy / Sell spread: 0.29%/0.29%
Wholesale: Calendar quarter Retail: March and September KiwiSaver: Does not distribute		

Compliance

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

Contact Us

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