

# Nikko AM SRI Equity Strategy

Monthly Update 30 April 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

- Most global equity markets fell over the month, reacting to the likely timing of central bank rate cuts being pushed out as higher than expected inflation continues to persist.
- The United States S&P 500 index fell 4.2%, the Japanese Nikkei 225 lost 4.9%, the UK FTSE 100 gained 2.4%, the Australian ASX 200 index declined 2.9% and the MSCI World index ended the month down 1.8% (in local terms).
- The S&P/NZX 50 index ended the month down 1.2%.

## Fund Highlights

- The fund ended the month down 0.5% and ahead of the index return.
- NextDC completed an AU\$1.3b capital raising to fund further data centre developments while Heartland Bank completed a \$210m raising to buy Challenger Bank in Australia.
- Overweight position Resmed, underweight Heartland Group, and a nil holding in restricted stock SkyCity added value.
- Overweight positions Ryman Healthcare, Ingenia Communities, and underweight Fisher and Paykel detracted 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>	-0.48%	1.90%	2.49%	1.47%	7.02%	11.88%
<b>Benchmark<sup>2</sup></b>	-1.22%	1.00%	0.36%	-1.27%	4.41%	9.70%
<b>Retail<sup>3</sup></b>	-0.54%	1.68%	1.51%			
<b>KiwiSaver<sup>4</sup></b>	-0.55%	1.68%	1.56%	0.41%	4.68%	

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 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.

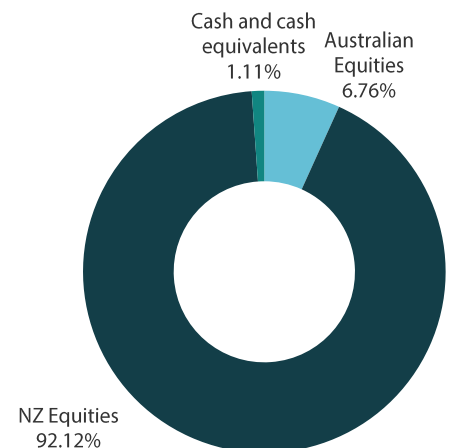
## Overview

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			
<b>What Helped:</b>		<b>What Hurt:</b>	
Skycity Entertainment	NH	Ryman Healthcare	OW
Resmed	OW	Ingenia Communities	OW
Heartland	UW	Fisher & Paykel Healthcare	UW

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

Top 10 Holdings (% of fund)			
Fisher & Paykel Healthcare	13.12	Meridian Energy	6.08
Infratil	10.57	A2 Milk	4.29
Auckland International Airport	9.43	Summerset	4.24
Spark New Zealand	8.25	EBOS	4.21
Contact Energy	8.19	Mainfreight	4.12

Sector Allocation (% of fund)	Fund	Benchmark
Health care	27.47%	23.99%
Industrials	26.57%	28.26%
Utilities	17.60%	17.78%
Communication services	14.21%	10.30%
Consumer staples	4.29%	5.00%
Real estate	3.03%	8.21%
Information technology	2.35%	1.33%
Energy	1.32%	0.32%
Cash and cash equivalents	1.11%	0.00%
Consumer discretionary	0.77%	2.06%
Materials	0.69%	0.44%
Financials	0.59%	2.30%
<b>Number of holdings</b>	<b>32</b>	<b>50</b>

## Market Commentary

Mixed economic data and a stubbornly high inflation rate continues to impact markets, with the expected timing of central banks easing cycle being deferred. This led to US 10-year bond yields rising materially over the month from 4.2% to 4.68%, the Australian 10-year rising from 3.96% to 4.42%, and the New Zealand 10-year rising from 4.54% to 4.94%. This consequently had a negative effect on equity markets. Amongst major market indices only the United Kingdom and Chinese markets ended in positive territory over the month. Geopolitical tensions also weighed on markets with conflict in the Middle East continuing and the risk that it escalates across the region.

## Fund Commentary

The largest positive contributors to the fund's relative return were overweight position **Resmed (RMD)**, underweight **Heartland Group (HGH)**, and a nil holding in restricted stock SkyCity (SKC). RMD delivered a positive 9.0% return. The fund invested in RMD during the month and the stock performed well on the back of a good result. For the interval period the fund held RMD during the month, the stock was up 16.9% (in AUD). HGH delivered a negative 15.2% return. The company announced a \$210m equity raise in support of its purchase of Australia's Challenger Bank.

The raising was priced at \$1.00 per share which presented an opportunity for the fund to establish a position. HGH ended the month at \$1.06. Restricted stock SKC delivered a negative 14.4% return.

The largest negative contributors to relative return were from overweight positions **Ryman Healthcare (RYM)**, **Ingenia Communities (INA)**, and underweight **Fisher and Paykel (FPH)**. RYM delivered a negative 10.6% return. The company's share price remains under pressure after announcing the resignation of the Chief Executive which followed the earnings downgrade announced earlier. INA delivered a negative 10.9% return. The company was impacted by a downgrade from Lifestyle Communities (LIC) which operates in the same industry as INA, along with poor performance by the Australian real estate index. FPH delivered a positive 11.0% return. The company is benefiting from analysts' incorporation of the relatively new anaesthesia segment into their forecasts. While negligible in the near term, entails more material longer-term earnings upgrades.

Key portfolio changes during the month included establishing new positions in **Heartland Group (HGH)**, **Resmed (RMD)**, and **Worley (WOR)**. Adding to positions in **NextDC (NXT)**, **Waypoint (WPR)**, and **Mercury (MCY)**. Reducing positions in **Freightways (FRW)**, **Ebos Group (EBO)**, and **Mainfreight (MFT)**. (**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>Retail:</b> 0.95%, refer to PDS for more details. <b>KiwiSaver:</b> 0.95%, refer PDS for more details.	<b>Exclusions:</b> Controversial weapons (including but not limited to cluster munitions and chemical, biological and nuclear weapons).	<b>Strategy size:</b> \$64.3m
<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

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

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