

Nikko AM SRI Equity Strategy

Monthly Update 31 May 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 bounced back from a relatively weak performance in April with a solid performance in May as company earnings results gave support to the market.
- The United States S&P 500 index rose 4.8%, the Japanese Nikkei 225 gained 0.2%, the UK FTSE 100 index increased 1.6%, the Australian ASX 200 index added 0.9% and the MSCI World index ended the month up 3.7% (in local terms).
- The S&P/NZX 50 index ended the month down 0.8%.

Fund Highlights

- The fund ended the month down 0.9%, slightly behind the index return.
- Earnings guidance updates and company results for the period ended 31 March dominated news flow and share price performance.
- A deal to keep the Tiwai Point Aluminium smelter open for another 20 years was agreed which provided a boost to Mercury, Meridian Energy and Contact Energy who will supply electricity to the smelter.
- Overweight position Contact Energy, and underweight positions / nil holdings Tourism Holdings, Skellerup added value.
- Overweight positions Summerset, Sky Network Television and underweight / nil holding Gentrack detracted value.

Performance

	One month	Three months	One year	Three years (p.a.)	Five years (p.a.)	Ten years (p.a.)
Wholesale¹	-0.89%	1.64%	2.17%	2.09%	6.47%	11.84%
Benchmark²	-0.75%	1.31%	1.31%	-0.44%	4.03%	9.72%
Retail³	-0.98%	1.41%	1.20%			
KiwiSaver⁴	-0.99%	1.39%	1.23%	0.87%	4.23%	

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.

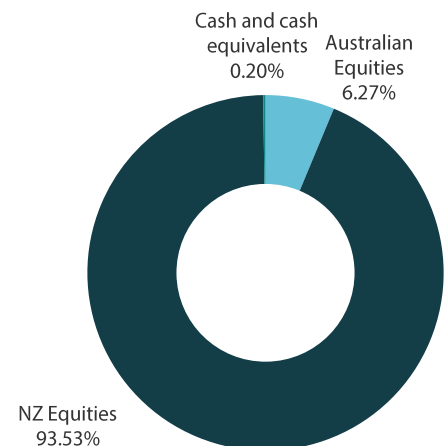
Overview

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				Sector Allocation (% of fund)		
What Helped:		What Hurt:		Health care	27.29%	23.80%
Contact Energy	OW	Summerset	OW	Industrials	26.07%	27.46%
Tourism Holdings	NH	Sky Network Television	OW	Utilities	19.99%	19.16%
Skellerup	NH	Gentrack	NH	Communication services	12.80%	9.48%
OW: overweight; UW: underweight; NH: no holdings; RS: restricted stock				Consumer staples	4.92%	5.70%
Top 10 Holdings (% of fund)				Real estate	3.53%	7.98%
Fisher & Paykel Healthcare	13.97	Meridian Energy	7.14	Information technology	2.32%	1.49%
Infratil	9.93	A2 Milk	4.92	Energy	1.32%	0.33%
Auckland International Airport	9.45	EBOS	4.78	Materials	0.62%	0.42%
Contact Energy	8.95	Mainfreight	4.36	Financials	0.53%	2.27%
Spark	7.30	Mercury	3.90	Consumer discretionary	0.40%	1.91%
				Cash and cash equivalents	0.20%	0.00%
				Number of holdings	31	50

Market Commentary

Company earnings were a dominant factor in global equity market performances over May, along with a recovery of a weaker performance in April. The tech heavy Nasdaq index was a strong performer, up 6.9% as the likes of Nvidia, Apple, Meta and Microsoft continued to push higher on good results, up 26.9%, 12.9%, 8.5% and 6.6% respectively over the month. In New Zealand the Reserve Bank's Monetary Policy Statement had a hawkish tone, pushing out the timing of rate cuts to the back end of 2025 and also noting that they considered raising the Official Cash Rate. The New Zealand government delivered its budget which had no material impact on stocks or the market in general.

Fund Commentary

The largest positive contributors to the fund's relative return were from an overweight position **Contact Energy** (CEN), and underweight positions/nil holdings Tourism Holdings (THL), Skellerup (SKL). CEN delivered a positive 6.3% return. The stock benefited from the long-awaited announcement that the Tiwai Point Aluminium smelter (NZAS) would stay open for another 20 years. NZAS represents a meaningful part of NZ aggregate demand for electricity. The decision to stay provides confidence to build additional supply and confidence that the long-term wholesale electricity price will remain firm. THL delivered a negative 35.5% return. The stock struggled after THL downgraded earnings guidance by one-third. Explained as being driven by weak vehicle sales volumes and margins. Resulting in the estimated profit trajectory of the company shifting meaningfully lower, with the associated negative valuation impact. SKL delivered a negative 21.6% return. The stock struggled despite no obvious company specific news. There could be some after-effects from the profit miss at their half year result in February, where they also negatively surprised by announcing their long serving and highly respected CEO was stepping down and exiting the business in March. In addition, the stock may have been caught up in small cap NZ stocks poor performance as a group over the month.

The largest negative contributors to relative return were from overweight positions **Summerset** (SUM), **Sky Network Television** (SKT), and underweight/nil holding Gentrack (GTK). SUM delivered a negative 14.4% return. The stock struggled after a disappointing result from industry peer Ryman Healthcare likely caused some contagion effects. In addition, more than 35 million RYM shares worth ~NZ\$130 million were traded, weighing on all the retirement sector stocks with some selling of these likely occurring to fund the RYM purchases. SKT delivered a negative 15.8% return. The stock struggled despite no obvious company specific news. Several consumer stocks have downgraded recently and SKT was likely impacted by negative sentiment around this. GTK delivered a positive 17.8% return. The stock benefited from the release of their half-year results which positively surprised the market with an earnings upgrade.

Key portfolio changes during the month included exiting Radius Residential Care (RAD). Adding to positions in **Precinct Properties** (PCT), **Worley** (WOR), and **EBOS** (EBO). Reducing positions in **Freightways** (FRW), **Michael Hill** (MHJ), 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:	\$61.3m
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 month.

Contact Us

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