

Nikko AM Concentrated Equity Strategy

Monthly Update 30 June 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 had mixed performance over the quarter with the timing of rate cuts being pushed out and bond yields moving higher negatively impacting markets, offset by earnings results.
- The United States S&P 500 index rose 3.9%, the Japanese Nikkei 225 fell 2.0%, the UK FTSE 100 index increased 2.7%, the Australian ASX 200 index declined 1.1% and the MSCI World index ended the quarter up 3.4% (in local terms).
- The S&P/NZX 50 index ended the quarter down 3.1%.

Fund Highlights

- The fund ended the quarter down 3.15%, trailing the index return.
- Earnings guidance updates and company results for the period ended 31 March dominated news flow and share price performance.
- 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 and Infratil raised \$1.15b to fund its data centre development pipeline.
- 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.
- The fund's positions in Aristocrat Leisure, Fisher & Paykel Healthcare and Infratil added value while positions in Spark, Summerset and Arcadium Lithium detracted from value.

Performance

	One month	Three months	One year	Three years (p.a.)	Five years (p.a.)	Ten years (p.a.)
Wholesale¹	-0.24%	-3.15%	4.50%	0.33%	5.73%	11.70%
Benchmark²	0.82%	2.52%	10.53%	8.45%	7.28%	7.28%
Retail³	-0.46%	-3.52%	3.19%	-0.93%	4.23%	9.67%
S&P/NZX50⁴	-1.19%	-3.13%	-0.83%	-1.74%	2.99%	9.66%

- Returns are before tax and before the deduction of fees and including tax credits (if any).
- Benchmark: RBNZ Official Cash Rate plus 5% per annum. No tax or fees.
- Returns are before tax and after the deduction of fees and expenses and including tax credits (if any).
- 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 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.

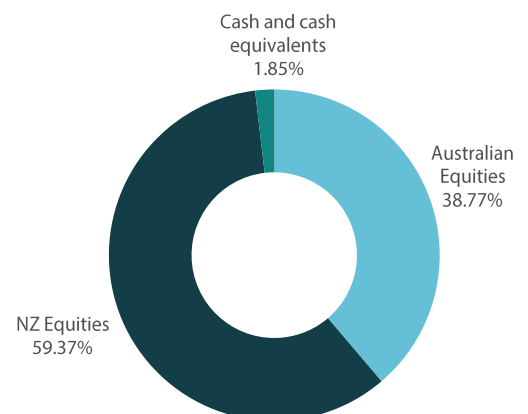
Overview

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:	Infratil	13.01	Summerset	7.18
Aristocrat Leisure	Spark	NextDC	12.87	Ingenia Communities	5.73
Fisher & Paykel Healthcare	Summerset	Contact Energy	12.26	Mainfreight	5.46
Infratil	Arcadium Lithium	Spark NZ	9.32	Waypoint REIT	5.14
		Aristocrat Leisure	7.27	Worley	4.35
		Number of holdings			16

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

Market Commentary

While there was mixed economic data, sticky inflation continues to impact on markets with the likely timing of interest rate cuts by the US Federal Reserve pushed out. There is also a risk that the Reserve Bank of Australia raises rates as Australian CPI continues to print higher than expectations. This led to 10-year bond yields rising over the quarter with the US 10-year rate rising from 4.2% to 4.4%, the Australian 10-year rate rising from 3.96% to 4.31% and the New Zealand 10-year rate rising from 4.54% to 4.67%. The pushing out of the timing of rate cuts and the increase in bond yields had a negative impact on equity markets but in certain markets this was offset by good earnings results. The tech heavy Nasdaq index was a strong performer, up 8.3% as the likes of Nvidia, Apple, Alphabet, Tesla, Amazon and Microsoft continued to push higher on good results, up 36.7%, 23.0%, 20.8%, 12.6%, 7.1% and 6.4% respectively over the quarter. Geo-political 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 return were positions in **Aristocrat Leisure** (ALL), **Fisher & Paykel Healthcare** (FPH) and **Infratil** (IFT). ALL delivered a very strong result, well ahead of market expectations which saw the stock up 17.0% (in AUD). FPH rose 18.5% over the quarter after delivering a solid result and also providing strong earnings growth guidance for the year ahead. IFT performed well post its \$1.15b capital raising to fund its data centre development pipeline and ended the quarter up 4.2%.

The largest negative contributors to the fund's return were from positions in **Spark** (SPK), **Summerset** (SUM) and **Arcadium Lithium** (LTM). SUM fell 16.7%, mainly impacted by a seller of more than 35 million RYM shares weighing on the retirement sector stocks. SPK downgraded earnings guidance by ~4% but did maintain its dividend guidance which puts the stock on an attractive yield. The earnings downgrade led to SPK falling 12.7% over the quarter. The LTM share price has been heavily impacted by weak lithium prices and as a result LTM fell 27.3% (in AUD) over the quarter.

Portfolio changes over the quarter included adding to our position in **NextDC** (NXT) and IFT through their capital raisings and adding a new position in **EBOS** (EBO) as it was sold down due to its removal from a MSCI index. New positions were also taken in **Worley** (WOR) and **Channel Infrastructure** (CHI). The fund's position in FPH was reduced while the Ramsay Healthcare was divested from the fund. (**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 but not limited to cluster munitions and chemical, biological and nuclear weapons).	Strategy size:	\$44.3m
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.

Contact Us

www.nikkoam.co.nz | nzenquiries@nikkoam.com

This document is issued by Nikko Asset Management New Zealand Limited (Company No. 606057, FSP No. FSP22562), the investment manager of the Nikko AM NZ Investment Scheme, the Nikko AM NZ Wholesale Investment Scheme and the Nikko AM KiwiSaver Scheme. This information is for the use of researchers, financial advisers and wholesale clients. This material has been prepared without taking into account a potential investor's objectives, financial situation or needs and is not intended to constitute financial advice, and must not be relied on as such. Recipients of this document, who are not wholesale investors (in accordance with Schedule 1, Clause 3 Financial Markets Conduct Act 2013), or their duly appointed agent, should consult a Financial Advice Provider and the relevant Product Disclosure Statement. Past performance is not a guarantee of future performance. While we believe the information contained in this presentation is correct at the date of presentation, no warranty of accuracy or reliability is given and no responsibility is accepted for errors or omissions including where provided by a third party. For full details on the fund, please refer to our Product Disclosure Statement on nikkoam.co.nz.