

# Nikko AM SRI Equity Strategy

Monthly Update 31 December 2023

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 were weak in October before staging a strong recovery over November and December as bond yields fell sharply.
- The United States S&P 500 index rose 11.2%, the Japanese Nikkei 225 added 5.0%, the UK FTSE 100 index gained 1.7%, the Australian ASX 200 index increased 8.4% and the MSCI World index ended the quarter up 9.4% (in local terms).
- The S&P/NZX 50 index ended the quarter up 4.3%.

## Fund Highlights

- The fund ended the quarter up 4.3%
- There were a number of company results announcements and Annual Shareholder Meetings during the quarter.
- Several takeover offers were disclosed - Sky Network Television, Rakon and Arvida.
- Underweight positions (nil holdings) in Heartland Group, Air New Zealand and Port of Tauranga added value. Overweight positions in Allkem, Infratil and Contact detracted from 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>	4.33%	4.28%	5.22%	-0.50%	8.97%	12.54%
<b>Benchmark<sup>2</sup></b>	3.96%	4.30%	3.51%	-2.72%	6.79%	10.64%
<b>Retail<sup>3</sup></b>	4.24%	4.02%	4.22%			
<b>KiwiSaver<sup>4</sup></b>	4.26%	4.04%	4.25%	-1.73%	6.66%	

1. Returns are before tax and before the deduction of fees.
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.

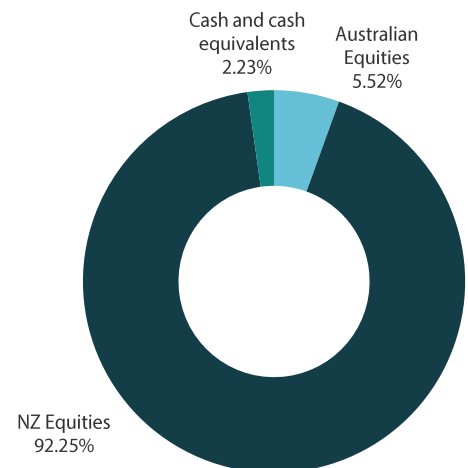
## Overview

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>	
Heartland Group	NH	Infratil	OW
Air New Zealand	NH	Allkem	OW
Port of Tauranga	NH	Contact	OW

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

Top 10 Holdings (% of fund)			
Fisher & Paykel Healthcare	11.21	Meridian Energy	5.31
Infratil	10.35	Mainfreight	4.73
Spark New Zealand	10.25	EBOS	4.56
Auckland International Airport	9.57	Ryman Healthcare	4.55
Contact Energy	7.90	Summerset	4.14

Sector Allocation (% of fund)	Fund	Benchmark
Industrials	27.84	30.23
Health care	26.11	22.66
Utilities	16.30	17.20
Communication services	16.15	11.31
Consumer staples	3.05	3.75
Real estate	2.57	8.35
Information technology	2.39	1.21
Cash and cash equivalents	2.23	0.00
Energy	1.26	0.30
Materials	1.16	0.45
Consumer discretionary	0.94	2.22
Financials	0.00	2.32
<b>Number of holdings</b>	<b>28</b>	<b>50</b>

## Market Commentary

Global equity markets dropped in October as economic data and the Gaza conflict led to a flight to quality and safety which drove bond yields higher. November and December saw markets rebound strongly as bond yields fell on signs that rate hikes might be over in the United States and the Federal Reserve indicated a number of rate cuts in 2024. Interest rate moves and expectations continue to drive the equity market rather than earnings results and the outlook for earnings. The quarter also saw the New Zealand election and formation of a right leaning coalition government. The year finished strong across major markets, posting 12 month returns of: Nasdaq up 43.4%, S&P 500 up 24.2%, Nikkei 225 up 28.2% and the S&P / ASX 200 up 12.4%. The New Zealand market was among the weaker, only up 3.5%.

## Fund Commentary

The largest positive contributors to the fund's relative return were underweight positions (nil holdings) in Heartland Group (HGH), Air New Zealand (AIR) and Port of Tauranga (POT). HGH, AIR and POT all announced updates to the market that were disappointing. HGH fell 16.9% after downgrading earnings guidance after a slower than expected start to their financial year. AIR noted softness in domestic travel including corporate and government along with domestic and trans-Tasman leisure travel. AIR ended the quarter down 13.0%. POT fell 4.8% after providing a trading update at its annual shareholder meeting, with earnings guidance below market expectations.

The largest negative contributors to relative return were from overweight positions in **Allkem** (AKE), **Infratil** (IFT) and **Contact** (CEN). The merger of AKE and Livent was approved which saw AKE cease trading late in December and start trading under its new name, Arcadium Lithium. AKE fell in October and November on weak lithium markets before recovering in December as markets steadied and the merger was approved. AKE ended the quarter down 4.7%. CEN announced a delay to the commissioning of their material greenfield geothermal plant Tauhara, leading to negative earnings revisions for FY24. CEN end the quarter down 0.4%. IFT delivered their first half FY24 result, demonstrating robust operating performance across their portfolio companies and lifted their mid-point EBITDA guidance for FY24. The updated Longroad independent valuation did not appreciate as meaningfully as some expected due to an increase in discount rates. IFT fell 0.9% over the quarter.

Key portfolio changes during the quarter included the divestment of CHC. Adding to positions in Ingenia (INA), RYM, NextDC (NXT) and Summerset (SUM). Reducing positions in Restaurant Brands (RBD), Freightways (FRE) and Fletcher Building (FBU). (**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>Exclusions:</b>	Controversial weapons (including but not limited to cluster munitions and chemical, biological and nuclear weapons).	<b>Strategy size:</b>	\$62.6m
<b>Retail:</b>	0.95%, refer to PDS for more details.				
<b>KiwiSaver:</b>	0.95%, refer PDS for more details.				
<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 quarter.

## Contact Us

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