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Nikko Asset Management

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Nikko AM SRI Equity Strategy

Monthly Update 29 February 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 likely at an end.
- The United States S&P 500 index rose 5.2%, the Japanese Nikkei 225 jumped 7.9%, the UK FTSE 100 index was unchanged, the Australian ASX 200 index increased 0.8% and the MSCI World index ended the month up 4.3% (in local terms).
- The S&P/NZX 50 index ended the month down 1.1%.

Fund Highlights

- The fund ended the month down 0.65% 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 position NextDC and underweight positions Precinct Properties and Kathmandu (nil holding) added value.
- Overweight positions Ryman Healthcare and Michael Hill, and underweight Gentrack (nil holding) detracted value.

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.

Performance

	One month	Three months	One year	Three years (p.a.)	Five years (p.a.)	Ten years (p.a.)
Wholesale[1]	-0.65%	4.83%	2.63%	2.15%	7.65%	12.16%
Benchmark[2]	-1.05%	3.75%	-0.35%	-0.55%	5.54%	10.04%
Retail[3]	-0.72%	4.57%	1.66%			
KiwiSaver[4]	-0.71%	4.59%	1.70%	1.23%	5.29%	

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.

Overview

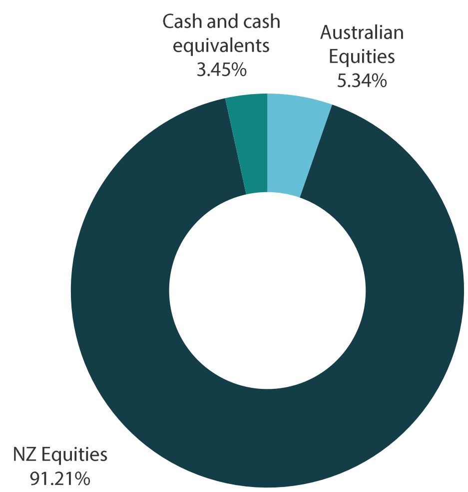
The SRI Equity Strategy seeks growth opportunities by investing in New Zealand and Australian equity markets. Our local equity portfolio management team hand pick stocks that they believe have potential for growth of income and capital. The fund excludes any company that derives more than 10% of its 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.

Five Year Cumulative Performance, $10,000 invested[1,2]

Asset Allocation



Attribution To Performance			
What Helped:		**What Hurt:**	
NextDC	OW	Ryman Healthcare	OW
Kathmandu	NH	Gentrack	NH
Precinct Properties	UW	Michael Hill	OW

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

Top 10 Holdings (% of fund)			
Fisher & Paykel Healthcare	11.71	Meridian Energy	5.54
Infratil	10.70	EBOS	4.61
Spark New Zealand	9.79	Summerset	4.35
Auckland International Airport	9.07	Mainfreight	4.31
Contact Energy	7.78	A2 Milk	4.13

Sector Allocation (% of fund)	Fund	Benchmark
Industrials	26.56	28.92
Health care	25.95	22.76
Utilities	16.23	17.82
Communication services	15.49	11.22
Consumer staples	4.13	4.72
Cash and cash equivalents	3.45	0.00
Real estate	2.86	8.04
Information technology	2.45	1.31
Energy	1.37	0.31
Consumer discretionary	0.75	2.16
Materials	0.75	0.45
Financials	0.00	2.29
Number of holdings	**29**	**50**

Market Commentary

After a very strong end to 2023 and a solid January, 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. Despite some economists picking that the Reserve Bank of New Zealand would increase our Official Cash Rate, the RBNZ left the OCR at 5.5% when they released their Monetary Policy Statement late in February. In fact, the RBNZ's statement was more dovish than expected which resulted in bond yields moving modestly lower. 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 +20.8% for Gentrack through to -25.7% for Kathmandu in the S&P/NZX 50 index. Out of the 50 stocks there were 18 positive returns and 32 negative returns.

Fund Commentary

The largest positive contributors to the fund's relative return were from an overweight position in **NextDC** (NXT) and underweight positions in **Precinct Properties** (PCT) and Kathmandu (KMD). NXT 25.9% positive return (in AUD). The company announced a good result but more importantly outlined a strong demand outlook driven by cloud and Artificial Intelligence data storage requirements. PCT 6.4% negative return. The NZ REIT sector performed poorly through February, underperforming the weak NZX 50 index return by 2.4 percentage points. PCT was softer still, despite delivering a first half result in line with market expectations. Share price performance was impacted by a material sale of stock at the end of the month, with major shareholder Haumi Limited Partnership (an Abu Dhabi sovereign wealth fund) selling their 15% stake. KMD 25.7% negative return. The company delivered a disappointing first half trading update with sales across all divisions down materially.

The largest negative contributors to relative return were from overweight positions in **Ryman Healthcare** (RYM) and **Michael Hill** (MHJ), and an underweight (nil holding) in Gentrack (GTK). RYM 18.6% negative return. The company downgraded their full year guidance, with new unit sales in several villages running behind expectations. Heavy offshore selling also contributed to the share price performance. MHJ 15.0% negative return. The company released their first half result which was weaker than expectations due to profit margin pressure. They did manage to grow top line sales revenue and win market share over the period, suggesting they are doing well in a weak macroeconomic environment and could be well placed when the cycle turns. GTK 20.8% positive return. Having announced an investment in an Australian based technology company and energy retailer which resulted in a surge in demand from investors pushing the share price higher over the month.

Key portfolio changes during the month included establishing a new position in Precinct Property (PCT). Adding to positions Ingenia Communities (INA) and Channel Infrastructure (CHI). Reducing position in Fletcher Building (FBU). (**Bold** denotes stocks held in the portfolio).

Key Fund Facts

Estimated annual fund charges (incl. GST)	
Wholesale: **Retail:** **KiwiSaver:**	Negotiated outside of the unit price. 0.95%, refer to PDS for more details. 0.95%, refer PDS for more details.
Distributions:	
Wholesale: **Retail:** **KiwiSaver:**	Calendar quarter March and September Does not distribute

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.
Exclusions:	Controversial weapons (including but not limited to cluster munitions and chemical, biological and nuclear weapons).
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.

Strategy Launch:	January 2008
Strategy size:	$66.3m
Buy / Sell spread:	0.29%/ 0.29%

Compliance

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

Contact Us

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