

# Nikko AM SRI Equity Strategy

Monthly Update 31 January 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 have had a solid start to the year with most markets continuing the good performance seen in November and December.
- The United States S&P 500 index rose 1.6%, the Japanese Nikkei 225 jumped 8.4%, the UK FTSE 100 index declined 1.3%, the Australian ASX 200 index increased 1.2% and the MSCI World index ended the month up 1.2% (in local terms).
- The S&P/NZX 50 index ended the month up 0.9%.

## Fund Highlights

- The fund ended the month up 1.1%, 0.2% ahead of the index return.
- A number of companies provided updates on earnings guidance ahead of reporting results for the period ending December which will be reported in February.
- Overweight positions in Infratil and Summerset and an underweight position in Port of Tauranga added value. Overweight positions in Arcadium Lithium, Ryman Healthcare and Michael Hill 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>	1.13%	9.96%	1.97%	0.00%	8.65%	12.44%
<b>Benchmark<sup>2</sup></b>	0.87%	10.47%	0.09%	-2.53%	6.56%	10.42%
<b>Retail<sup>3</sup></b>	1.04%	9.67%	1.00%			
<b>KiwiSaver<sup>4</sup></b>	1.03%	9.67%	1.02%	-0.96%	6.22%	

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.

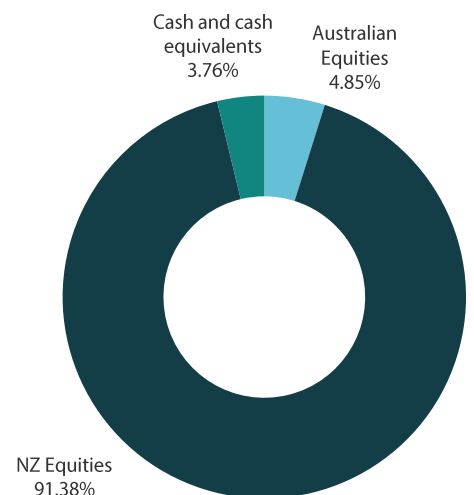
## Overview

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>	
Infratil	OW	Arcadium Lithium	OW
Summerset	OW	Ryman Healthcare	OW
Port of Tauranga	NH	Michael Hill	OW

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

Top 10 Holdings (% of fund)			
Fisher & Paykel Healthcare	11.45	Meridian Energy	5.14
Infratil	10.47	EBOS	4.70
Spark New Zealand	9.87	Mainfreight	4.57
Auckland International Airport	9.08	Ryman Healthcare	4.48
Contact Energy	7.79	Summerset	4.21

Sector Allocation (% of fund)	Fund	Benchmark
Industrials	27.10	29.80
Health care	26.45	22.79
Utilities	15.88	17.21
Communication services	15.66	11.47
Cash and cash equivalents	3.76	0.00
Consumer staples	3.51	4.03
Real estate	2.50	8.24
Information technology	2.19	1.20
Energy	1.29	0.30
Consumer discretionary	0.90	2.23
Materials	0.76	0.43
Financials	0.00	2.29
<b>Number of holdings</b>	<b>28</b>	<b>50</b>

## Market Commentary

Despite continuing tensions in the Middle East, including attacks on ships in the Red Sea, global equity markets have had a solid start to the year. The United States released several strong pieces of economic data including robust jobs report, steady unemployment and much better economic growth. This, along with a continued view that rate cuts are on the horizon, gave investors confidence in the equity market. Following the Federal Open Market Committee meeting where rates were left unchanged, the Governor of US Federal Reserve stressed that they are in no rush to cut rates. This led to a drop in the US market on the last day of the month. Commentary from Central Banks over the coming months around timing of rate cuts will be important for the performance of markets. February will see a number of companies report results for the period ending December. As per normal, earnings results along with outlook comments will be important for investors and stock price movements.

## Fund Commentary

The largest positive contributors to the fund's relative return were overweight positions in **Infratil** (IFT) and **Summerset** (SUM) and an underweight position in Port of Tauranga (POT). IFT rose 5.3% following a positive revaluation of its Canberra Data Centre investment along with announcing the signing of new customer contracts that underwrite further development. SUM announced strong sales numbers of new and resale units for the last quarter of 2023. This should support a reasonable 2023 result and good momentum into 2024. POT fell 4.8% on no specific news.

The largest negative contributors to relative return were from overweight positions in **Arcadium Lithium** (LTM), **Ryman Healthcare** (RYM) and **Michael Hill** (MHJ). RYM fell on no specific news and ended the month down 3.4%. With the merger complete between Allkem and Livent, LTM started trading in late December and was relatively strong into the end of the year. With weak lithium prices, LTM came under pressure in January and fell 30.6% (in AUD). MHJ delivered a weak trading update and issued earnings guidance down materially on the previous comparable period. The tough retail environment along with increasing costs has led to a reasonable reduction in margins. MHJ ended the month down 10.1%

Key portfolio changes during the month included adding to our positions in **A2 Milk** (ATM), **Fisher & Paykel Healthcare** (FPH), **Fletcher Building** (FBU) and **RYM**. Positions in **Contact Energy** (CEN), IFT, **Mainfreight** (MFT), **Mercury** (MCY), **Meridian Energy** (MEL), **NextDC** (NXT), **SUM** and **Spark** (SPK) were reduced. (**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>	\$66.2m
<b>Retail:</b>	0.95%, refer to PDS for more details.			<b>Buy / Sell spread:</b>	0.29%/0.29%
<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>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

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