Quarterly Fund Report:
Mint Australasian Equity Fund

mint
ASSET MANAGEMENT

CERTIFIED RESPONSIBLE INVESTMENT
RESPONSIBLE
CERTIFIED BY RIAA

SINGLE SECTOR FUND

Mint Australasian Equity Fund

Investment Objective

The fund aims to provide investors with long-term capital growth by investing in Australian and New Zealand listed equities. The objective is to outperform the S&P/NZX50 Gross Index after fees and expenses, over the medium to long term.

It is interesting that at a time when equity market volatility is at its highest level since Covid and the GFC, recent moves in bond markets are seen as more noteworthy than those of the equity markets. Yes, US tariffs have heightened uncertainty and raised a wide array of economic and philosophical questions, but equity markets have reacted in their normal way and sold off to reflect perceived risk. In the early stage in the tariff sell-off, bond markets also behaved as expected and were bought driving bond yields down. However, more recently bonds have also sold off, which we believe highlights that in a trade war, China potentially has more levers to pull than the US.

A trip to Muddleland

This quarter, it feels like we have taken a trip to Muddleland where the Mister Men hang out and everything is the opposite of what it should be. Despite what was a solid reporting season, certainly better than feared in New Zealand, equity markets fell in most regions (Europe aside) as investors tried to figure out what “the most beautiful word” will mean for local and global economies alike.

The targets, size, and justification for the US’ tariffs all came as something of a surprise, even before the Rose Garden announcements of “reciprocal tariffs.” This in itself is a misnomer as these ‘tariffs’ are designed to address the US’ balance of trade deficit. At face value we see tariffs of even 10% as highly destructive to global trade (if left in place) and agree with the Chinese that the tariffs raised against them are now “economically meaningless” even if they could still rise further.

Friend has arguably been treated worse than foe, with the likes of China looking to use the international courts of law in the face of US aggression, while Canada refuses to buy bourbon. We see the temporary reprieve to the imposition of tariffs as a bargaining position, but also the US Treasury market as a potential a circuit breaker. The reality is that any onshoring of manufacturing into the US is likely to take a number of years and it remains to be seen whether this will drive meaningful job rises in a market that appears to be close to full employment. We are also starting to see US tariffs being socialised with the likes of Nintendo putting up prices worldwide.

We believe the Cato Institute’s 2024 Trade and Globalisation National Survey sums things up well. While 80% of Americans and over 80% of Republican leaning Americans surveyed thought that America would be better off if more Americans worked in manufacturing, less than 30% of all Americans surveyed and a similar number of Republican leaning Americans thought they would be better off if they worked in a factory.

Australasia a good place to be during global uncertainty

Nevertheless, this is the world that we currently live in, and we have looked to adapt the portfolio accordingly. In the first quarter Australasian returns were better than their US counterparts and we continue to see New Zealand and Australian stocks as having limited direct impact from US tariffs (10%) even if they are likely be impacted by second derivatives such as global interest rates, inflation and GDP. Portfolios already maintain significant holdings in domestic focused businesses such as the New Zealand power generation sector (90% renewable energy sector trough Meridian Energy and Contact) and Summerset (the retirement village operator with all its villages in New Zealand and Australia), industries where we see structural growth driven by electrification and demographics.

While we continue to invest in high quality businesses with structural growth that we see as unaffected by tariffs (such as Telix's radiopharmacy business that derives all its revenue from the US), we have increased our exposure to domestic focused businesses where opportunities present, adding Amcor (a global packaging play with most products made locally – yet to have the Berry acquisition priced in), Suncorp (a Queensland based Australian insurance company that could benefit from cost deflation) to reduce the impact that tariffs could have on the portfolio. We have also taken advantage where tariff volatility has compounded cyclical woes by adding to domestic names on weakness (Fletcher Building and Spark) while reducing exposure to some mid-cap markets and those names directly impacted by tariffs such as Mainfreight.

Uncertainties remain and exposures are literally changing by the day. We see Fisher and Paykel Healthcare as a good example of emphasising this. Fisher and Paykel Healthcare (FPH) were one of the first companies to announce the impact that US tariffs were expected to have on their earnings on 3 April. In this announcement FPH confirmed that 45% of its product was manufactured in Mexico (at the time the target of a 25% tariff) which could translate into a potential 10-20% hits to EPS in FY26/7. FPH said it would look to use its New Zealand manufacturing to supply the US, and Mexico to supply markets outside the US, to mitigate the impact of the expected Mexico tariff, even if this would take some time to reshuffle the logistics of the group. It transpired that all the products that FPH manufactures in Mexico are USMCA compliant and as such (currently) have a nil tariff, while its New Zealand manufacturing was exposed to a 10% tariff. So, its manufacturing and logistics routes can remain largely as they are. The interesting development is that Singapore where Resmed (FPH's competitor in obstructive sleep apnoea masks) manufactures c.40% of its product has been hit by a 10% tariff which could lead to a cost advantage to FPH if the current tariff status quo is maintained.

We remain nimble and ready to take advantage of opportunities but stay true to our process and only leap when we have undertaken our due diligence and are fully aware of the risks that new stocks bring with them when entering the portfolio.

Who wins in a trade war? (no one) The Art of the Deal plays the Art of War?

While the US economy remains in a robust position, we see the US' Achilles heel as its mounting debt burden. This means that DOGE will need to deliver the $3 trillion of savings it promised, or at some point either US spending will need to reduce, or the interest rate paid on this debt burden will need to fall (as of April the US national debt stands at $36.2 trillion - up from $21.5 trillion in 2018 – this will generate $582.5 billion of interest payments in 2025, equal to the annual budgets of the Departments of Agriculture, Education and Transportation combined), particularly if President Trump follows through with his campaign pledge to deliver tax cuts.

We do not believe that the US has the ability to target stimulus towards its domestic economy in the same way that China can (direct to its population; through economic stimulus towards domestic manufacturing; through ongoing investment in infrastructure and property development; or via its exchange rate). Nor do we consider a US citizen as willing to put up with the adversity in the way that its Chinese counterpart can. So, if the trade war is to escalate and impact the domestic economies of the USA and China, we see this as a lesser problem for life President Xi, than President Trump.

Hitherto, we are surprised that Fed Chairman Jerome Powell has felt the ire of the 47th President less than the 45th, maybe the current focus is to improve international relations? With the President pushing seemingly inflationary policies, interest rates are likely to be higher than was expected prior to his election victory. However, Jerome will likely come under increasing pressure from the current administration.

We see it as no coincidence that the US blinked in face of rising bond yields and rolled back tariffs for 90 days. We have already seen the impact that corporates not participating in US Treasury issuance has had on debt markets. If China (the second largest international holder of US Treasuries after Japan; owning $759bn out of $28.6 trillion issued; or 3% of total US Treasuries outstanding; or 9% of those owned by foreign entities[1]) were to sell US Treasuries (without intervention), this would likely push bond yields higher. We hope the US has seen the delicate position it finds itself in and will act accordingly going forward.

Do bond markets highlight the solution?

There are various explanations for the recent sell off in bonds all which have some merit. Initially we saw the rise in yields as a liquidity call as increased market volatility caused lenders to call in their debts. This initially manifested in the equity market but quickly spread to the bond market and caused selling there as well.

A worse structural problem would be if heightened volatility undermined the reputation of the US as a lender and caused a higher premium to be required to be paid when issuing debt. This could herald the demise of the greenback as the world's favourite currency having avoided the rise of the Euro and the Renminbi.

Tariffs and macro events aside, there were two other areas of discussion in the first quarter – the de-rating of technology related stocks heralded by DeepSeek and the Australasian reporting season.

Deepseek – DC demise confirmed by Microsoft capacity cuts? We think not

DeepSeek was unveiled to the world on 27th January professing to be trained at 1/30th of the cost of previous language models without the benefit of state of the art chips and technology. This called into question the need for next generation chips and GPUs (such as Blackwell Ultra and Vera Rubin made by Nvidia) and the need for the proposed build out data centres built by the likes of CDC (owned by Infratil) and NextDC and marked the recent peak in sentiment towards data centre names and the wider technology universe as a whole.

Matters were made worse when Microsoft acknowledged in March that it has cancelled 2GW of data centre projects seemingly confirming that less compute will be required than initially thought. However, conversations with CDC (owned by Infratil), HMC Capital and NextDC would imply this is a regular occurrence, with all capacity quickly taken up by other customers with none of these capacity cuts affecting these businesses in Australasia. Furthermore, we believe that delays in new contracting announcements can be explained by the design evolution for new data centre design which we expect to take a maximum of six months to accommodate a fluid chip technology landscape.

Experts also pointed out, that we have yet to see the impact of AI on data centre compute consumption. Hitherto most of the focus in AI has been on training – using language models to learn to do new things such as answer questions through ChatGPT. Training – the main current use for AI is expected to account for c. 5% of compute capability going forward. So, while we concede that data centre valuations were full approaching the year end, we believe the selloff has started to reveal value.

Reporting season – better than feared

The February reporting season was for the most part better than feared with 11 companies driving EPS upgrades and 16 EPS downgrades out of the 31 companies that reported in New Zealand and 30% earnings beat compared

[1] US Treasury data: https://fiscaldata.treasury.gov/datasets/monthly-statement-public-debt/summary-of-treasury-securities-outstanding and https://ticdata.treasury.gov/resource-center/data-chart-center/tic/Documents/slt_table5.html

to 21% misses in Australia. Yes, the outlook for 2026 and beyond was reigned in, but the expectation for mid to high single digit growth in New Zealand and Australia both seem achievable when the outlook for resources and FPH are taken into account.

The two standout results from the New Zealand market were a2 Milk (+37%) and Spark (-22%) in February. Chinese birthrate concerns proved unfounded with a2 continuing to grow share in Tier 2 and 3 towns, giving it the visibility to pay a DPS for the first time. Spark issued its fourth downgrade and mounting pressures in mobile, government and other key areas of the business and making its aspirations to continue to invest in data centres while paying the current dividend unachievable in our view. We continue to see a more realistic dividend of 15c going forward versus 27.5c paid in FY24.

Defensive sectors such as Utilities and Consumer Staples fared best in the Australian reporting season with IT, Healthcare and REITS performing worst. Maybe the performance of Wisetech (-28%) in February and Megaport (+31%) sums up our performance over the reporting season and the quarter – we avoided the worst of what New Zealand market had to offer but were weighed down by some of our growth names in Australia leaving our performance broadly in line with the NZX50.

Reasons to be cheerful – liquidity improving and fundamentals favourable

We would end on a more positive note on market structure. In recent years the New Zealand market has seen liquidity fall as Covid-induced day trading reduced, as the population returned to work and investors looked to more dynamic returns overseas. But as interest rates have peaked and started to fall, we have seen increasing liquidity in the New Zealand market since the middle of 2024 which we see as a sign of health in the market and recent returns have been more in line or better than international peers.

In recent months, we have seen a number of liquidity events including some of the biggest transactions the NZX has seen. We have seen numerous sell downs - Auckland Council selling its 9.7% in Auckland Airport, Ampol selling its 12.7% stake in Channel Infrastructure and most recently Bain selling its 20% stake in Tower. Three major capital raises – Auckland Airport raising NZ$1.4bn to fund future investment – the largest transaction to date on the NZX, Ryman raising $1bn in February and Fletcher Building raising $700m were comfortably absorbed by the market and go a long way to repairing problem balance sheets. We take these as a sign of improving health and interest in the market.

Furthermore, while market volatility has caused liquidity in the smaller stocks to fall in recent weeks, increased liquidity in larger names particularly around recent share price lows imply share price discovery and that valuations are starting to reflect the changing status quo.

We have seen increased interest in the New Zealand market, with international ownership continuing to rise. Whether this is due to an attractive valuation (P/E 24x headline or 15x adjusting for FPH), compelling yield (3.4% headline, 4.3% adjusting for FPH rising to 5.3% in FY26E) defensive earnings (with 2/3 of the index made up of defensive names – Gentailers, Infratil, Chorus, Auckland Airport, EBOS, Goodman Property Trust or with visible dynamic growth Fisher and Paykel Healthcare, a2 Milk), safe haven status or less attractive term deposits (at 4% now below the FY26 index yield of 5.3%), we continue to find opportunities in the market.

In the current environment, the one thing we can be sure of is uncertainty and volatility, but this is not necessary a bad thing for an active manager.

As of 31 March 2025

Portfolio Manager, John Middleton

BA

John has over 22 years' experience and joined Mint from ANZ Investments where he was Head of Australasian Equity Research. In New Zealand, he previously worked as Senior Analyst at AMP Capital undertaking analytical research on a range of sectors including Transportation, Healthcare and Technology companies across both New Zealand and Australia.

Prior to that John was based in London where he worked at JP Morgan as Head of European Aerospace and Defence Research. During this time, he was also heavily involved in corporate broking.

John started his career as a sell-side analyst working for ABN AMRO where he covered a range of sectors including Paper and Packaging, Support Services and Engineering.

John holds a BA in Modern Languages (French and Russian) and European Studies from the University of Bath and a Postgraduate Diploma in Organisation and Management from Cape Town University.

At Mint, John is Portfolio Manager for the Australasian Equity Fund and provides research coverage across a number of sectors.

Signatory of: PRI Principles for Responsible Investment

TOITŪ NET CARBON ZERO ISO 14064-1 ORGANISATION

STEWARDSHIP CODE AOTEAROA NEW ZEALAND

riaa Responsible Investment Association Australasia

For more information on our Funds, please contact:

Level 29, SAP Tower
151 Queen Street, Auckland
New Zealand

P 0800 646 833
E info@mintasset.co.nz
www.mintasset.co.nz