Quarterly Fund Report:
Mint New Zealand SRI Equity Fund

SINGLE SECTOR FUND

Mint New Zealand SRI Equity Fund

Investment Objective

The fund aims to provide investors with long-term capital growth by investing in New Zealand listed equities. The Fund has been designed to meet specific responsible investment criteria, with the aim of building a portfolio where the holdings in aggregate, generate a better ESG score in our systems than the benchmark. The objective is to outperform the S&P/NZX50 Gross Index after fees and expenses over the medium to long term.

A Jittery Start to 2025

After a buoyant finish to 2024, the first quarter of 2025 brought a reality check for New Zealand equities. The S&P/NZX50 Index declined 6.4%, reversing much of the momentum from the second half of last year and underperforming most global benchmarks. Unlike the large-cap dominance of 2024, Q1 saw a sharp reversal in leadership: large caps slumped 10.8%, while mid- and small-cap stocks provided rare bright spots, up 2.1% and 2.3% respectively.

Performance dispersion was wide. Standout strength in Consumer Staples (+31%)—thanks largely to a2 Milk's remarkable +40% rebound—helped cushion the broader market fall. Energy also posted solid gains (+7%), while sectors like Healthcare(-12%), Financials (-14%) and Communications (-16%) were notable underperformers. In many cases, earnings downgrades and macro-sensitive themes drove the sell-off. Mainfreight, Ryman and Warehouse Group were among the quarter's weakest performers, weighed down by either earnings misses or structural balance sheet concerns.

Still Waiting for the Recovery

February's local reporting season once again painted a cautious picture. EPS downgrades outpaced upgrades nearly 4:1, reflecting ongoing pressure on margins, demand, and capital costs. Domestic cyclicals remain in a holding pattern—names like Mainfreight and Napier Port continue to await signs of demand recovery. While property names delivered better-than-expected results (notably Kiwi Property and Precinct), broader investor sentiment toward the sector remains muted due to lingering concerns around funding costs and overly geared balance sheets.

A few bright spots stood out: Auckland Airport and Freightways demonstrated operational resilience, though investor focus remains on margin sustainability and volume trends. Overall, though, the hoped-for earnings recovery has yet to materialise in any convincing fashion, just ask the retailers – green shoots still hiding in the weeds!

Domestically, the Reserve Bank of New Zealand continued its easing cycle with another 50bp cut in February, bringing the OCR to 3.75%. Inflation is now within the target band, and Q4 CPI was flat. But the sharp depreciation in the NZD/USD (~$0.55) has raised concerns about imported inflation re-emerging in the second half of the year. Growth remains weak—Q4 GDP fell 0.1%, extending New Zealand's technical recession to four quarters, and unemployment ticked up to 4.3%. Markets still price in around 75–100bps of further easing in 2025, but expectations have been tempered by the risk that looser monetary conditions may reignite housing imbalances or inflation volatility. The RBNZ's task is finely balanced.

Trump Chaos reigns supreme

The broader theme for Q1 was macro uncertainty—globally and domestically. U.S.–China tensions spiked dramatically in March after the U.S. imposed sweeping new tariffs globally, including a 145% duty on Chinese imports. This triggered risk-off sentiment globally, dragging U.S. and Asian markets lower and souring investor appetite for growth, where high-multiple tech stocks bore the brunt.

While we saw an eventual pause, the harm of uncertainty on short term demand, potential capital decisions and even the flow through to US Treasury's has not disappeared overnight. The resurgence of U.S.–China trade tensions under President Trump's tariff-heavy approach has reintroduced external risks to New Zealand-listed companies with global supply chains and export exposure. For Fisher & Paykel Healthcare (FPH), the near-term impact appears limited, as much of its U.S.-bound production from Mexico benefits from a USMCA exemption, shielding it from the sweeping 25% tariff on Chinese goods. However, the longer-term risk remains elevated: any future revision of USMCA terms or a broadening of tariff classifications could challenge FPH's margin trajectory. Industrial manufacturer, Skellerup faces direct pressure from the latest U.S. tariffs, with key manufacturing hubs in China and Vietnam. Around 35% of its sales are into the US, with ~85% of those potentially impacted. While the pause on its Vietnamese tariffs is helpful, the escalating Chinese impact is material if unmitigated. While FY25 guidance remains intact, SKL is responding through price increases, cost reductions, and in-market manufacturing, though relocation options are limited. Recent conversations with management are reassuring that significant portions can be mitigated but clearly risk remains.

Beyond company-specific impacts, secondary effects are materialising more broadly. With China as New Zealand's largest trading partner, any slowdown in Chinese growth caused by reduced export activity could weigh on global demand and commodity pricing—putting indirect pressure on NZX-listed exporters and consumer-facing names. Holdings in the fund such as Napier Port, Mainfreight and Freightways fall into this category.

Meanwhile, the uncertainty is likely to restrain capital investment plans, particularly for mid-cap industrials and tech firms reliant on offshore expansion. The risk of retaliatory measures or tariff spillovers into other trade corridors only amplifies the challenge, especially for a small, open economy like New Zealand. While direct exposure to U.S. tariffs is relatively contained for now, the broader implications—slower global growth, rising input costs, and supply chain recalibration—are increasingly hard to ignore for investors.

What has the fund been up to?

In the portfolio, the strongest attributors for the quarter were our underweights in Ryman Healthcare (-37%) and Spark New Zealand (-26%). Both saw sizeable moves for names that have historically been favourites in many fund manager portfolios.

Spark's poor performance for the quarter was a continuation of weaker conditions from FY24 with a 3.7% decline in mobile service revenue during the first half of FY25 with competition weighing on mobile APRU and margins. A sharp 17.7% fall in the Enterprise and Government segment, where clients reduced mobile fleet sizes amid broader costcutting added to their woes. In response, Spark has initiated a significant cost-out programme targeting NZ$80–100 million in savings for FY25, with annualised benefits expected to increase beyond NZ$110 million by FY27. Evidence of this has begun with updates of new partnership in the last few weeks. The group also continued to invest in adjacent growth areas, notably increasing data centre revenue by 13% as they look to find capital partners for further growth in this category. Despite these pressures and a downward revision to FY25 EBITDAI guidance (now NZ$1.04–1.10 billion), Spark maintained its full-year dividend at 25 cents per share. However, this payout exceeded the company's free cash flow of NZ$330 million, prompting ongoing concerns about dividend sustainability. The gap is expected to be bridged by asset sales, including the final tranche of its Connexa stake, but such support may not be repeatable. Spark's ongoing transition: balancing near-term earnings headwinds and capex intensity with its long-term opportunities and dividend profile are yet to be solved.

Recent fund addition Scales delivered its full year result for FY2024 during the quarter, with underlying EBITDA rising 36% to NZD 91.7 million and all divisions contributing. Global Proteins expanded profitably, Horticulture volumes and prices rebounded, and Logistics hit record results. More recently, Scales announced the increase of its stake in Shelby Foods, from 60% to a 67.5% shareholding, priced at a relatively full earnings multiple. This reflected its strategic importance to the overall business. Having been down myself to the Hawkes Bay in the last month the sector comments around a higher-quality apple crop in 2025 certainly holds and with nearly all destined for end markets in Asia (<1% to the USA) it looks to be a bumper year for the Mr Apple business.

One new addition to the fund over the quarter has been insurer Tower Limited. Tower Limited (TWR-NZ) delivered a strong performance in the first quarter of 2025, with gross written premium (GWP) rising 6% year-on-year to NZ$155 million, driven by growth in house and contents policies. The business-as-usual claims ratio improved sharply to 39% (from 57%), helped by benign weather, easing inflation, and better risk selection, while the management expense ratio fell to 30%.

Reflecting this momentum, Tower lifted its full-year underlying NPAT guidance to NZ$60–70 million, assuming full use of its NZ$50 million large events allowance. The company also returned NZ$45 million to shareholders via a one-for-ten share cancellation. With Tower's half year result out in late May we expect to see a continuation of its improved BAU claims ratio supporting their attractive dividend yield.

Our overweight in Infratil (-18%) was a key detractor for the quarter, with sentiment turning sharply against infrastructure names exposed to data centres and telecoms. Fears of overbuild in the data centre space and a pullback in hyperscaler capital spend led to a pronounced de-rating, despite Infratil's positive underlying fundamentals. However, the recent CDC investor day helped re-anchor the long-term investment case. CDC confirmed the doubling of EBITDA over the next two years, supported by strong demand (80% already contracted), deep customer pipelines, and continued expansion across its existing footprint. The strategy reaffirmed CDC's status as a best-in-class operator in a sector with significant secular tailwinds. Infratil's additional investment in CDC earlier this year has further strengthened its governance position and long-term exposure to this critical digital infrastructure theme. Concerns around One NZ were also tempered by the latest results, which indicated a far more stable trajectory than peers like Spark. While Infratil's renewable energy business, Longroad Energy, is navigating the impact of newly imposed tariffs, its existing pipeline underway and its strong domestic US supply chain (First Solar) has so far limited any material near-term disruption. We used the quarter's weakness as an opportunity to add to our position in what we believe remains a compelling long-term compounder.

Winter before the Spring

In today's increasingly volatile environment—marked by shifting interest rate expectations, escalating geopolitical tensions, and growing risks around global trade—we remain highly focused on aligning the portfolio with our highest conviction ideas that are also underpinned by clear valuation support. Flexibility is critical in navigating this backdrop, and we continue to strike a deliberate balance between quality domestic cyclicals and offshore earners that can weather global uncertainty. With the S&P/NZX50 median PE now below its historic average for the first time in a while, opportunities are presenting themselves – but some patience may be required. Our positioning remains selective, favouring resilient businesses with defendable earnings, pricing power, and strong market positions. We place particular emphasis on sound governance, robust balance sheets, and high ESG standards, which we believe are essential anchors in turbulent times.

Portfolio Manager, David Fyfe

BCom (Hons.), CFA

David has over 15 years' experience in the financial industry and joined Mint after returning from 5 years working in London. During his time in London, he worked for global private equity firm Pantheon Ventures before joining Lloyds Bank as a Derivatives Analyst.

Previously David worked at BT Funds Management (NZ) as both a Quantitative and Equity Analyst undertaking sector research specialising in Transportation, Utilities and Technology in both New Zealand and Australian markets.

David holds a Bachelor of Commerce (Hons.) from the University of Canterbury and is a CFA Charterholder.

At Mint, David is the Portfolio Manager for the NZ SRI Equity Fund, and provides research across a number of sectors.

Signatory of: PRI Principles for Responsible Investment

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