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 Difficult Start to 2024

We are only one quarter into a new year and already the roller coaster of markets has taken us on an adventurous ride. The strong run of the S&P/NZX50 into the calendar year end unsurprising coincided with the ~100bps fall in NZ 10-year govt bond from its October peaks (~5.50%). As the new quarter began bond rates levelled out as did local equity market return for all but a late surge that saw the NZ exchange return 3% for the quarter.

Strength was congregate in a few sectors including the utilities (Contact Energy), consumer staples (A2 Milk) and Information technology (Vista and Gentrack). While at the other end of town, real estate and communication services (Spark) had the toughest time – both with negative returns – as did the overall small cap sector returns.

The wider macro environment has continued to weaken in NZ. SEEK job adds continue to fall (while applications per job rise), GDP tipped into negative territory and the consumer is subdued with credit card spending down on the prior year. Scarily nearly 1/3 of mortgages are yet to rebase to current rates, so financial stress will persist.

The tail of summer bought out the listings in the residential property market into the new year, more especially in February. Many sellers who had hit pause during the recent house price declines came back to the market. While this has coincided with the more settled house price environment, residential completed sales remain at levels well below historic norms, something we are following closely as a key driver for the retirement sector.

Challenged Cyclicals…

February Reporting season was not pretty by many standards. Earnings numbers missed across many names in what felt like the only upgrades were to debt levels and interest costs…. Outlook statements were almost all vague and cautious which in turn saw analyst reducing earnings forecasts for this year and next.

Cyclical stocks continue to look cheap in NZ (trading on around a 12x P/E vs the NZ market at 22x) but sometimes things are cheap for a reason… and Fletcher Building came through on this. Within a short window we saw a sizable downgrade, further provisions, write down of assets, departure of CEO, CFO and Chair, ouch!

The flight to quality seems to have held with many of the defensive yield names holding strong with valuations above 10-year averages. The Gentailers (Contact/Meridian etc) valuation multiples have expanded on an improved earnings outlook, with genuine demand growth via the energy market transition to renewables as well as elevated wholesale prices as we head into winter. The long-awaited catalyst of a decision for the continued operation of the aluminium smelter at Tiwai is likely in the next few months…. But we were saying this a year ago!

Investor Day: Infratil

Infrastructure investor Infratil hosted an investor day over in Sydney in early March. This event gave management the opportunity to shine the light on a few of its key portfolio assets. The two pillars of the day were the fast-growing CDC (Canberra Data Centres) and Long Road. CDC has been an impressive investment for the Infratil team over the last few years through its development of high spec data centres. With the vastly increasing global data requirements (and with-it security), we have seen CDC go from strength to strength winning large government and enterprise contracts, including 110MW worth in the last year alone. The positive take away from the session was the companies stated plan for up to 1GW of capacity to be under development by 2026 vs its current operating capacity of 268MW – that's some solid growth!

Renewable energy was another feature on the day with Long Road the focus. Long Road has continued its path of delivering around 1.5GW of renewable projects per annum (largely solar) and reiterated their earnings target to an EBITDA run rate of 600m USD by 2026. Concerns around a Republican sweep (House/Senate) and Trump in power have spooked an unwind of the IRA but we see as a lesser impact given a large portion of the state that have benefited are red states. Additionally, and for the first time, we got greater detail into the lesser known Gurin Energy who develop renewables throughout Asia. While they are at an earlier stage than Long Road, the recently signed deal providing energy into Singapore via a giant 2GW solar site with battery support shows the size of the opportunity ahead for this business and potential value that sites within the Infratil portfolio.

Strong execution in a tough market

The standout for the quarter was hands down infant formula company, A2 Milk. News flow began the quarter with 'leaked' reports that the birth rate in China had fallen to 7.9m – only to find out a few weeks later that it was in fact 9.0m. Since then, it has appeared all rosy for A2, its half year result beat what was already lifted expectations as the important transition to their new formulation of their Chinese Label product appeared to have gone seamlessly. The only kink in the armour was the pushing back from their medium-term target of $2bn revenue into FY27 as the recovery in their English label product within the diagou channel hasn't occurred in any meaningful way. Momentum and positive data points continue to support the near term. Where we are continuing to focus is on the population growth outcomes in China and to what degree the impressive market share wins for A2 Milk can continue to support a more challenged outlook with birth rates expected to be somewhat limited in there recover at a time the large Chinese domestic infant formula competitors have seen a successful resurgence in both sales and trust.

What's around the corner…?

As we look ahead to the next quarter there a few focal points. In May we will have our next reporting season, this one has a skew to many of the real estate names as well as the retirement sector.
Real estate continues to be a sector we are underwhelmed with and remain underweight. Rate cuts continue to be pushed out, limiting any near-term interest cost relief and cashflow growth for the sector remains anaemic, hence the reporting ahead in May we do not hold out high hopes – with at least a few names still pay what appear to be unsustainably high dividends.
One name of interest we have been looking into to is the full year result from Mainfreight. With air and ocean freight rates having retreated from the disrupted Covid-19 highs to now pre-covid levels (or in some cases lower) we look how this has flowed through to earnings to see if this normalisation of rates.

Another important company reporting in May is Fisher & Paykel Healthcare. Supporting a positive story for the stock is the longer tail to the US flu season which has seen higher patient volumes at the back end of the year. In addition, homecare is going from strength to strength on competitor missteps and a faster product cycle in OSA masks continues to back their growth ambitions.

mint ASSET MANAGEMENT

Portfolio Manager, David Fyfe

BCom (Hons.), CFA

David has over 15 years' experience in the financial industry. Previously he 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.

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

Signatory of: PRI Principles for Responsible Investment

STEWARDSHIP CODE AOTEAROA NEW ZEALAND

TOITŪ NET CARBON ZERO ISO 14064-1 ORGANISATION

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