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ASSET MANAGEMENT

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Quarterly Fund Report:
Mint Australasian Equity Fund

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.

The last quarter was a good period for equity markets with most indices trading higher and the NZX50 and ASX 200 leading the pack up 6% and 6.6% respectively. More importantly, it feels like a lot of progress was made over recent months with a number of longstanding concerns starting to be addressed. Central Banks were cognisant started to relax monetary conditions. We also saw signs that the New Zealand Government’s moratorium on spending coming to an end. Yes, reporting season was challenging and highlighted volume pressures while costs continue to rise but from a market perspective M&A reappeared in the NZX50 and a couple of significant and successful capital raises show that capital markets are back open for business.

The fund held up well in a strong market as most stocks got an indiscriminate boost. Good analysis on Spark, Telix, Fletcher Building, Fisher and Paykel Healthcare and A2 Milk gave the fund a boost with Arvida and Megaport the main detractors. In general, the more defensive sectors (Communication Services, Utilities and Healthcare in the broader Australasian market) underperformed during the quarter. The bid for Arvida meant retirement villages traded strongly, as did Industrials and REITs.

Over the period we started to selectively add a bit of risk back into the portfolio moving back into stocks likely to benefit from falling NZ interest rates or where we believe the risk reward is starting to move back in our favour including Ryman Healthcare, Kiwi Property Group, James Hardie and Fletcher Building. This was funded by taking profits in some of our Australasian holdings (NextDC, Macquarie Group) and reducing exposure to a few kiwi names such as Goodman Property Trust and Contact Energy.

It was a tough reporting season for most companies. Revenues and dividends were broadly in line with expectations, even if growth has slowed materially. But it was rising costs that did the damage weighing on operating profit and earnings. We would note that this was a reporting period when Fisher and Paykel Healthcare did not report (it is a March year-end) so without the benefit of this high growth business (where our data would imply there is still scope for upside to earnings), market growth looked anaemic.

For the most part we navigated the reporting season well aside from Megaport where our focus on front book progress left us open to legacy decisions putting pressure on the back book. Our concerns about the underlying cash flow at Spark proved well founded with questions now being raised about the sustainability of the dividend at current levels. Questions about A2 Milk’s ability to maintain current levels of market share gains and improve margins were also on the money, even if the prospect of further Chinese stimulus meant these concerns proved more temporary than we expected.

Arvida has been at the centre of bid speculation for some time, so the offer from Stonepeak was not a huge surprise, even if the price ($1.70 per share or $1.7bn) was compelling. The fact that it firmed up into a proper bid (unlike the Warehouse and the ongoing saga at Vista Group which feels a bit like the Pushpay journey), we take as a positive sign that financial markets are unlocking with a combination of improving economic visibility, the prospect of lower borrowing costs and the fact that banks are willing to lend again, meaning that acquisitions are once again starting to be part of private equity (and corporates') armoury.

The market rewarded Auckland Airport and Fletcher Building for making sensible decisions to address capital concerns. Most companies can trade through difficult times or periods of significant investment, but there are consequences of doing this. These tend to be missing out on potential growth or making a lower return than a stronger capital position might have allowed. Auckland Airport and Fletcher Building raised NZ$1.4bn and NZ$700m respectively and both continue to trade above the theoretical ex-rights prices of the deal (i.e. the blended price of new equity and old equity) which means both transactions were well received even if questions remain (higher capex or a more severe downturn) for both. To be fair, neither capital raise came as a surprise to us, but the fact that the market was able to accommodate two significant capital calls in a month (including the largest ever for the NZX50) and deliver a flat performance in September (despite funding these two transactions) implies both a healthy market and capital waiting on the sidelines for the right deal. We would note that we do not think that we have seen the last of capital raises in New Zealand and continue to believe that property related stocks in particular would benefit from having a bit less debt.

Classically governments look to increase spending when macro conditions slow. National's decision to re-evaluate infrastructure spending and cut costs in Wellington since coming to power have exacerbated the economic slowdown in recent months. However, we see the release of the fast-track project list as a major step forward in this regard which should see government infrastructure spend start to be reinstated and increasing support in the construction market. We would also note that a number of projects, historically viewed as "contentious" appear to have received a green light on the fast-track project list which we also take as a positive.

The Central Bank narrative also changed over the quarter, not just in Western markets but in China. Inflation is for the most part now broadly in line with most Central Bank's 2-3% target range in the West, while economic conditions have started to slow. We expect global interest rates to be cut going forward and maintain our view that New Zealand cuts need to be faster and deeper than in the US to reflect the weaker economy. As usual the path for markets has been far from straight forward with demands for the first US rate cut in four years swiftly moving to concerns that too little was being done too late when a larger than expected a 50 basis point cut was delivered, even if concerns have abated as US economic data remains stronger than expected.

China also announced a host of easing measures designed to boost GDP, shore up the property market and help poorer households. This was well received by markets, the Chinese stock market in particular. Australian resource stocks also benefitted on the back of this news as did A2 Milk. Historically, China has struggled to spend all the stimulus it announces, but announcements of further stimulus packages expected over the weeks ahead, it appears China is willing to do whatever it takes to restart its economy.

Macro events continue to contribute to market volatility with tensions escalating in Israel and a rise in industrial action in particular in the US, pushing Ukraine headlines into the background. It remains to be seen how the US Election (on 5th November) will impact markets, but we do expect rhetoric and the risk of market volatility to increase over the weeks ahead.

Looking forward, after a strong rebound in market liquidity in recent months, we would expect liquidity to reduce, and volatility increase as we approach the Christmas break. The lack of an RBNZ meeting between 27th November and 19th February leaves us confident that the RBNZ will at least do a further 50 basis point cut in November for fear of being left behind by global events. This is notwithstanding recent US economic data implies additional US rate cuts could be delayed. We would not be surprised to see further NZ listed companies seek to raise capital ahead of the year end, particularly if rate cuts drive further market strength. We also have a couple of major index rebalances over the months ahead that could affect Spark and Mercury.

We believe the portfolio remains well positioned in high quality, low risk companies that should deliver above market returns at below market risk over the medium term. And as ever we thank you for your continued support.

Portfolio Manager, John Middleton

BA

John has more than two decades of experience and joined Mint from ANZ Investments where he was Head of Australasian Equity Research. During this time, he was also heavily involved in corporate broking.

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

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