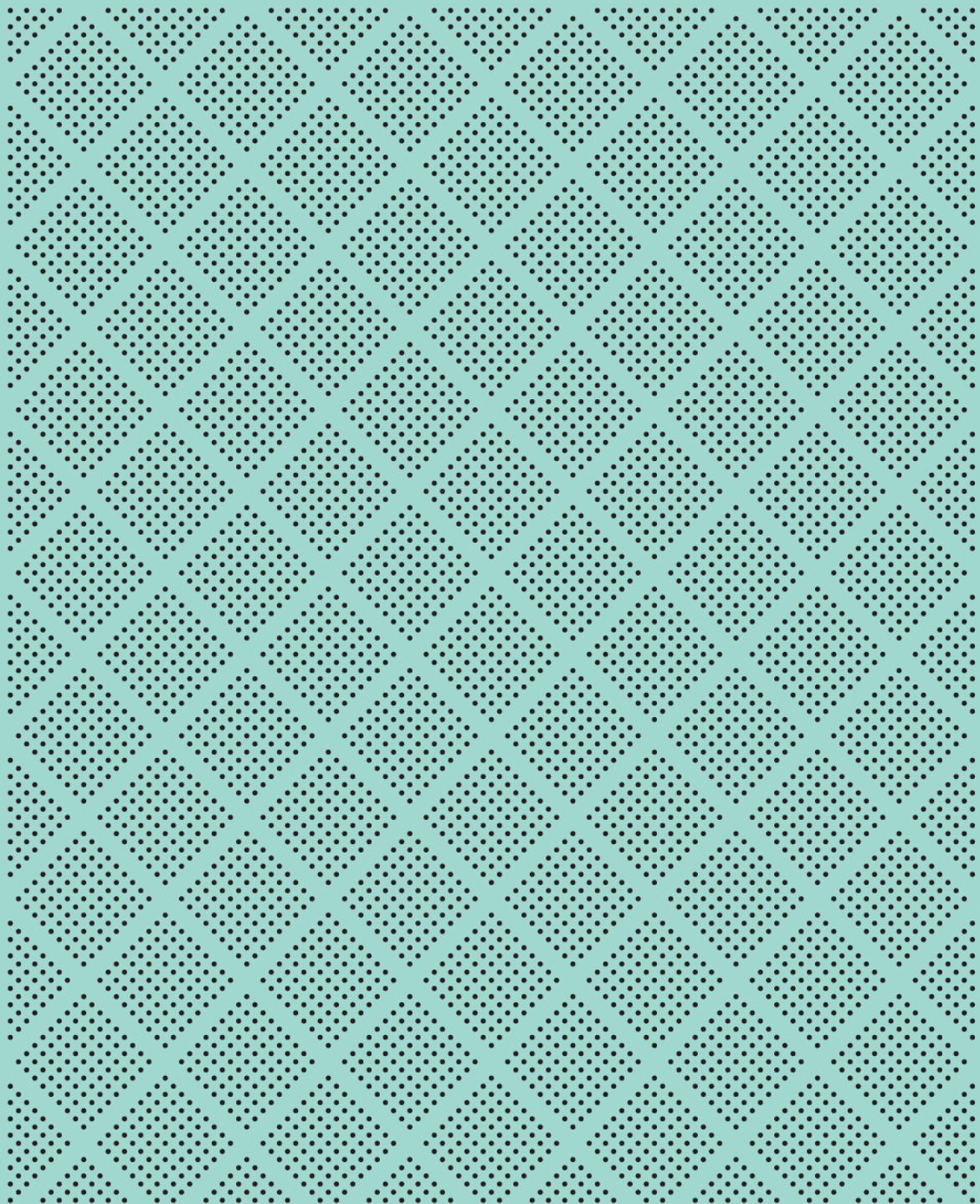




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# Quarterly Fund Report: Mint New Zealand SRI Equity Fund



## 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.

### Time to shine?

What a difference one quarter makes! Markets have jumped to life the last quarter as the dovish tones of Mr Orr have given local equity markets the long-needed boost they have been waiting for. The S&P/NZX50 Index rose 6% over the quarter with the beginning of the rate cutting cycle being reflected across the market. It was also a quarter where many of the large cap names – prior winners – gave way to a resurgence in the mid and small cap names (+10%).

The strong quarter was dominated by Healthcare up 18%. Within this, the retirement sector performed particularly well as a large beneficiary from the rate cuts as well as the board supported takeover offer for Arvida from US based investor Stonepeak. This lifted the sector sentiment given the premium offered (65% to last) and saw money being reallocated into other names in the sector. Fisher & Paykel Healthcare was a strong contributor to the index's performance as they upgraded full year earnings guidance ~3% at the midpoint (revenue reaffirmed). Feedback from management has been that the top end is very achievable with the continued improvement in gross margins, while segment revenues have also been strong across the board.

The August reporting season was somewhat of a reality check to the positive market sentiment, as the lacklustre results continued to show the poor macro environment within NZ. From a results perspective more than half of the roughly 30 names that reported missed on earnings (EPS) with downgrades to FY25, more than double the small number of upgrades.

Cyclical impacts continued to be a theme throughout results with Fletcher Building and Spark bearing the brunt of it. Fletchers continues to battle the cyclical downturn in activity as build consents and migration trends are not their friend. Material and distribution volumes are down -10-15% on the prior period putting margins under pressure. The ability to pull costs out has lagged, hence negative operating leverage has dominated headline numbers.

Spark, like Fletchers, has been an underweight in the fund. Spark was the worst performer in the S&P/NZX50 over the quarter down 23%. They saw a significant derating post reporting their half year result as the market remains sceptical over the company's ability to fund its current dividend level through operating cashflows and effectively pricing a dividend cut into its share price. The result itself disappointed with 'other gains' supporting the EBITDAI but not the weakening cash conversion. This at a time when they are looking to increase investment into the capital-intensive data centre strategy with a pipeline over 100MW. Debt continues to be the funder for the near

term as well as the reintroduction of the DRP – not long after having undertaken a buyback at a significantly higher share price level. The change in government has seen some pressure on its ICT offerings as weakening IT spend across the country isn't able to be offset by growth in other areas. Another cost out plan is underway to remedy some of the pain – but recent capital allocation decisions as well as future (dividends and data centres) continue to raise questions around appropriate settings.

## **Raises a plenty**

The September quarter saw a resurgence in capital market flows. We saw the largest secondary raise on the NZX with the \$1.4bn Auckland Airport. The airport's mammoth raise was to provide the balance sheet flex for the committed capex projects into its next regulatory period as well as in the short-term providing significant interest cost savings as current debt facilities are repaid with the raised funds.

Fletcher Building also tapped the market as they raised 700m in late September to stabilise the balance sheet and provide a better buffer given the continued soft market conditions as well as for outstanding costs relating to the pipes business in Western Australia (agreed A\$155m pre-tax but not limited to this) and other liabilities arising largely from the construction business legacy projects. The company will be hopeful that this provides the reset for the new CEO to continue with its review and turn around what has been an underperforming business battling a cyclical trough in activity, with the near term still challenged.

With the rate cutting cycle underway, the real estate sector has finally emerged from hibernation with a strong performance through the quarter (+8%). While it has been welcomed by real estate investors, we still remain cautious on the sector outlook given that medium-term earnings and dividend growth are muted at best. We do expect the sector to benefit from the falling rate environment, but more from a rerate rather than an earnings recovery, with the benefit from lower interest rates likely to lag. Additionally, as some of the names start trading closer to book value, we would not be surprised to see further capital raisings to reduce debt and fund acquisitions as many have been hamstrung at the point in the cycle where opportunities were greatest. A few missed opportunities for some... emphasising the need for corporates to manage capital prudently throughout the cycle. A factor we weigh heavily on when selecting key holdings within the fund. Unsurprisingly then, we have been underweight the real estate sector throughout the year but have incrementally reduced our underweight over the last quarter.

## **A merry Xmas?**

As we head into the final quarter of 2024, market sentiment has certainly improved. One of the key risks we see is around excessive optimism or pricing in the wins before they arrive.

As of writing this, the RBNZ has just cut the OCR another 50bps in line with market expectations. While this has been anticipated, with the market pricing another 50bps cut in November, it will continue to incrementally improve sentiment for both the consumer as well as businesses. So far, the recent retailer updates for NZ have not been particularly cheery but whether the rate moves and improved confidence starts to show through in activity is likely to lag but equity markets will eagerly be looking for support that the worst is behind us.

The November NZ reporting season will be fascinating, with its usual skew to real estate and retirement stocks we are unlikely to see any vast improvements in actual earnings – but as always, the market will be hang on with

bated breath to the outlook statements and any guidance statements if companies have confidence to provide them.

Geopolitics is like to remain and influencer of global markets and will no doubt filter back to NZ. The US election, the ongoing war in Ukraine and escalating tensions in the Middle East will continue to add volatility to uncertain times. Thus, our focus will remain holding names that continue to provide earnings certainty as well as sound risk management throughout. This often starts at the top - with robust governance. In the last quarter, the investment team has been very active engaging with many boards around key issues such as independence, capital discipline and disclosure including remuneration best practice. This ongoing work continues to feature highly in our assessment of corporates as we balance return outcomes with risk management to satisfy our longer-term alignment with corporate strategies.



## 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.

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