Quarterly Fund Report:
Mint Australasian Equity Fund

mint
ASSET MANAGEMENT

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.

Artificial intelligence steals the day...

NextDC have never looked to hide their light under a bushel, but quotes like "this is the fourth industrial revolution" and "we are on the cusp of the most significant change in digital infrastructure in my career" made on their results call summed up the sentiment towards AI stocks in the quarter. The standout stock on the global stage was Nvidia the US based chip maker that has seen its share price rise 238% over the last year and 83% year to date driven by the boom in chips needed to run artificial intelligence (AI) algorithms which drive new search engines such as Chat GPT. Clearly the share price move is impressive, but more importantly sales have risen 126% year on year and EBITDA is up 237%, so the P/E of the stock is largely unchanged as earnings growth and share price have moved in tandem.

While there are no chip makers that we can invest in in Australasia, our investments in Megaport, NextDC, and Infratil benefited from the data revolution, albeit in a more sedate manner (up 63%, 30% and 9% respectively) and were a foundation for our outperformance over the period. Furthermore, we believe all three remain well positioned to benefit from the use of these ever-increasing sales of microchips through their data centres, pipes, and power generation businesses to support the increasing use of data services over the medium term. While NextDC gave us the best quotes, we see Megaport's decision to refocus its salesforce as timely and as having the greatest scope to exceed expectations over the next few quarters.

....and hides the blushes elsewhere

The positive results from the technology sector overshadowed what was a disappointing reporting season for most companies in New Zealand in particular, but also in Australia. Expectations were low going into the reporting season, but for the 30 New Zealand companies that reported, beats trailed misses at the EPS line 9:15. The days of companies being able to push up prices to offset cost inflation and create "positive jaws" appear behind us and general economic data has highlighted weak volumes for most retail businesses once the benefit of price is excluded. The interesting news is that freight costs appear to have peaked and are falling notwithstanding the Red Sea shipping issues and labour shortages have disappeared with an increasing number of corporates looking to cut costs.

We would argue that the greatest disappointments came from those out of cycle updates from Ryman, and Fletcher Building, while the a2 Milk company delivered the most positive result, defying falling Chinese birth rates with market share gains. Ryman's announcement of weaker than expected sales came shortly after Summerset had reported that the sell down of its new developments was progressing well and smacked more of mix issues for Ryman (which we have been focusing on for some time), than for the sector as a whole, even if we are seeing slowing house sales in general. The Fletcher Building downgrade a week ahead of its result was also frustrating, not just because the initial announcement related to the higher cost to complete the International Convention Centre (expected by the end of the year), but the subsequent downgrade to guidance driven by pressures in housing related divisions and the departure of the CEO and Chairman reflected poor dissemination of information in the business over the summer slowdown (we would argue a more systemic issue). Furthermore, we consider management change at a time of earnings volatility, the later stages of major contracts and at a time when the pipes issue in Australia appears to be coming to a head as exactly what the business does not need.

NZ Inc under pressure, but growth opportunities remain

While there are clear signs that the New Zealand economy is slowing, the good news is the New Zealand stock market does not reflect the underlying economy and there are a number of companies that we would expect to grow irrespective of the underlying economic conditions (Infratil, Summerset, Fisher and Paykel Healthcare). Furthermore, the fund allows us to cherry pick the best of what Australia can offer (with a few ESG exceptions) and we have continued to increase exposure to the Australian market over the quarter.

The Healthcare sector remains a happy hunting ground for us, offering at the larger end of town high quality businesses, with significant barriers to entry and structural growth (Fisher and Paykel Healthcare) and tailwinds (CSL). While it also offers smaller dynamic businesses breaking into new markets with superior products and patient acuity (Clinuvel, Aroa and Telix). Interestingly the aforementioned companies acted as a drag in the quarter with our relative positioning in the retirement sector (Summerset versus Ryman) generating alpha, even if we would expect these healthcare names to continue to deliver over the medium term.

The rhetoric from Central Banks implies that rates are set to remain higher for longer, so we are unlikely to see rate cuts in the quarter ahead. While this appears to be borne out by positive economic data in the US (positive GDP, falling inflation and robust employment), the same is not true in New Zealand where we are in a technical recession, the new Government is making cuts to Wellington jobs, and inflation remain stubbornly high. While we maintain our view, that when the US Federal Reserve cuts its interest rates the Rest of the World will quickly follow, but the fear is that if cuts are deferred until after the US election, or into the fourth quarter of 2024, or beyond, this will be put considerable pressure on the balance sheets of the New Zealand property sector, a sector where we continue to maintain minimal exposure.

Can we get a soft landing and rates higher for longer?

We don’t think so. Looking ahead, we continue to expect a softish landing and maintain that most data continues to support this. The key risk is that inflation remains stubbornly high and that rates remain higher for longer. Nevertheless, we believe the fund’s focus on high quality growth assets, with strong balance sheets, competitive advantages and structural tailwinds should allow the portfolio to outperform in either scenario.

As of 31 March 2024

mint ASSET MANAGEMENT

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.

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