

Factsheet 30 November 2018

# NIKKO AM CORE EQUITY STRATEGY

Applies to: Nikko AM Wholesale Core Equity Fund, Nikko AM Core Equity Fund (Retail) and Nikko AM KiwiSaver Scheme Core Equity Fund

## Market Overview

- Following last month's sell off, equity markets globally remained volatile.
- The United States S&P 500 index rose 1.8%, the Japanese Nikkei 225 index was up 2.0%, the FTSE 100 index lost 2.1% and the MSCI World index ended up 1.4%,
- S&P/NZX 50 index was up 0.9%

## Fund Highlights

- The fund was down 1.36%, and was 2.23% behind the index.
- Key positions that added value was an underweight in Ryman Healthcare and overweight's in Orocobre, Infratil and Contact Energy. Overweight positions in Aristocrat Leisure, Fletcher Building, Metro Performing Glass and Metlifecare were the largest detractors to relative return. Trademe Group, a nil holding at the start of the month was the second largest detractor.
- Several key portfolio positions were impacted by earnings results and annual shareholder meetings.

## Performance

	One month	Three months	One year	Three years (p.a)	Five years (p.a)	Ten years (p.a)
Wholesale <sup>1</sup>	-1.41%	-8.37%	6.65%	16.31%	16.13%	15.44%
Benchmark <sup>2</sup>	0.88%	-4.89%	8.92%	14.42%	14.37%	13.97%
Retail <sup>3</sup>	-1.46%	-8.53%	5.66%	14.81%	14.61%	
KiwiSaver <sup>3</sup>	-1.39%	-8.35%				

1. Returns are before tax and before the deduction of fees

2. Benchmark: S&P / NZX 50 Index Gross (with Imputation Credits). No tax or fees.

3. Returns are before tax and after the deduction of fees and expenses and including tax credits (if any)

## Portfolio Manager

**Stuart Williams,**  
**Head of Equities, CA**



Stuart joined Nikko AM in 2014, he is responsible for the Domestic Equities team and covers the Industrials, Healthcare and Financials sectors. Stuart has over 20 years' experience across the industry with a track record in portfolio management of both benchmark relative and high conviction funds.

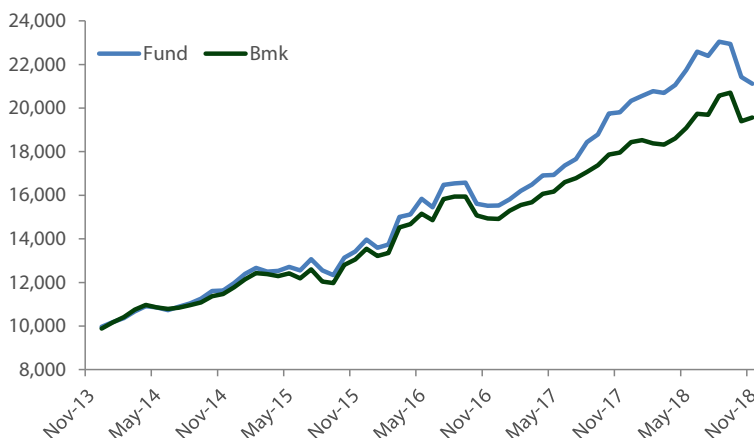
## Overview

The Core Equity strategy seeks growth opportunities by investing in New Zealand and Australian equity markets. Our local equity portfolio management team hand-pick stocks that they believe have potential for growth of income and capital.

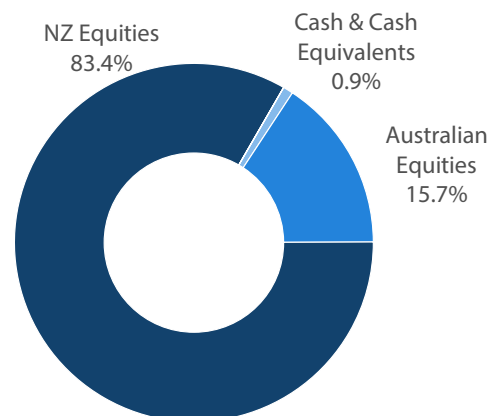
## Objective

The fund aims to outperform the benchmark return by 3% per annum before fees, expenses and taxes over a rolling three year period.

## Five Year Cumulative Performance<sup>1,2</sup>



## Asset Allocation



Attribution to Performance			
What Helped:		What Hurt:	
Ryman Healthcare	NH	Aristocrat Leisure	OW
Orocobre	OW	Trade Me Group	UW
Infratil	OW	Fletcher Building	OW
OW: overweight; UW: underweight; NH: no holding – month end position			
Top 10 Holdings			
The a2 Milk Company	10.65%	Metlifecare Ltd	5.21%
Origin Energy Ltd	7.38%	Infratil Limited	5.12%
Spark New Zealand Ltd	6.33%	Summerset Group	4.98%
Fletcher Building Ltd	6.23%	Fisher & Paykel Healthcare	4.44%
Auckland Airport	5.86%	Z Energy Ltd	4.43%
Number of holdings			35

Sector Allocation	Fund	Benchmark
Health Care	15.69%	18.69%
Consumer Discretionary	13.77%	6.84%
Utilities	12.50%	16.24%
Consumer Staples	11.93%	10.78%
Industrials	10.43%	15.74%
Energy	9.57%	2.92%
Materials	7.21%	4.37%
Communication Services	6.96%	11.55%
Real Estate	4.83%	9.22%
Financials	4.25%	2.54%
Information Technology	1.94%	1.11%
Cash	0.92%	0.00%

## Market Commentary

Following last month's broad based sell off, equity markets remained volatile with the never ending back and forward on trade and tariff positioning from the United States and China. The United States S&P 500 index rose 1.8%, the Japanese Nikkei 225 index was up 2.0%, the FTSE 100 index lost 2.1% and the MSCI World index ended up 1.4%. The New Zealand market, as measured by the S&P/NZX 50 index was up 0.87% with heavy news flow and takeover offers producing a large range of returns across the market.

## Fund Commentary

The fund fell 1.41%, 2.29% behind the index which rose 0.9%. Earnings results for the period ending September along with annual shareholder meetings saw a lot of news flow during the month. The largest positive contributors to relative return were an underweight position in Ryman Healthcare (RYM) and overweight positions in **Orocobre** (ORE), **Infratil** (IFT) and **Contact Energy** (CEN). RYM's half year earnings result was in line to slightly underwhelming and the build rate outlook is lower than previous expectations. Pleasingly there are no signs of a slowing housing market impacting on unit sales and settlements. RYM fell 4.2% over the month which follows the 13.6% drop in October. ORE gained 27% over the month supported by commodity prices, AGM commentary and the confirmed Final Investment Decision on Phase Two development at Olaroz in Argentina. CEN rose 5.0% following a strong monthly operating update while IFT increased 8.5% after a good half year earnings result and well attended visit to their Canberra Data Centre asset. The largest negative contributors to relative return were overweight positions in **Aristocrat Leisure** (ALL), **Fletcher Building** (FBU), **Metro Performance Glass** (MPG). **ALL** fell despite a strong overall full year result announcement as the market focused on modestly underwhelming digital business performance. TradeMe detracted from performance when an indicative takeover was announced at \$6.45 causing a sharp price jump. FBU tumbled 21.2% after providing earnings guidance at its annual shareholder meeting that was 4 – 5% lower than market expectations. FBU cited concerns around the outlook for earnings from its Australian business. MPG fared even worse, dropping 41.1% on two pieces of news. The first being a customer's intention to directly compete with MPG and second, an earnings update which showed tough trading conditions in its Australian division. Key portfolio changes during the month included increasing positions in **A2 Milk** (ATM), **Z Energy** (ZEL), **SKYCITY Entertainment** (SKC), **Contact Energy** (CEN), **Infratil** (IFT) and introducing **Trade Me** (TME). Positions in **Spark** (SPK) and **ANZ Bank** (ANZ) were reduced. Mercury NZ was sold completely.

(Bold denotes stock held in portfolio)

## Key Fund Facts

Distributions		Estimated annual fund charges		
Wholesale fund:	Calendar quarter	Wholesale:	Negotiated outside of fund	
Retail fund:	March and September	Retail:	1.00%, refer PDS for more details	
KiwiSaver fund:	Does not distribute	KiwiSaver:	0.95%, refer PDS for more details. Fee waived until 31/3/19	
Hedging		Buy / Sell spread	Strategy size	Strategy Launch
Foreign currency exposures may be hedged to NZD at the Manager's discretion within an operational range of 0% to 105%.		0.29% / 0.29%	\$473.8m	October 2007
Currently the fund's foreign currency exposure is unhedged				

## Compliance

The Fund complied with its investment mandate and trust deed during the month.

## Contact Us

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