

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

- Over the quarter, equity markets continue to push higher on the back of low interest rates.
- The United States S&P 500 index rose 4.8%, the Japanese Nikkei 225 index increased 0.3%, the FTSE 100 index added 2.0%, the ASX 200 index jumped 8.0% and the MSCI World index ended the quarter up 3.2%
- The S&P/NZX 50 index performed well against our international peers, up 6.8%.
- Bond yields continued to fall globally with 10-year US Treasury bond yields dropping 40bps over the quarter to 2.01% while the NZ 10-year bond ended the quarter down 24bps to 1.57%.

Fund Highlights

- The fund ended the quarter up 5.4%, 1.5% behind the index
- Key positions that added value were overweight positions in Aristocrat Leisure and Infratil and an underweight in Ryman Healthcare. Overweight positions in Metlifecare, Summerset and Viva Energy detracted from value.

Performance

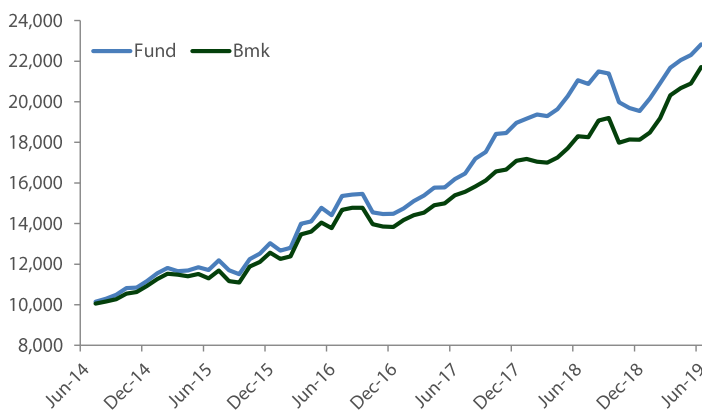
	One month	Three months	One year	Three years (p.a)	Five years (p.a)	Ten years (p.a)
Wholesale ¹	2.36%	5.36%	8.41%	16.59%	17.96%	16.04%
Benchmark ²	3.86%	6.82%	18.60%	16.36%	16.77%	15.59%
Retail ³	2.28%	5.09%	7.50%	15.16%	16.46%	
KiwiSaver ³	2.36%	5.36%	8.56%			

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).

Five Year Cumulative Performance, \$10,000 invested^{1,2}



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.

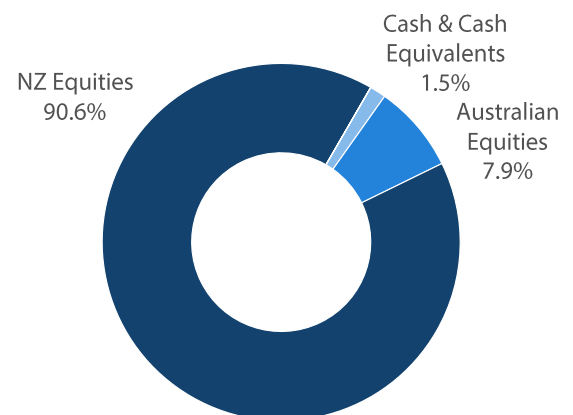
Overview

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.

Asset Allocation



Attribution to Performance (quarter)				Sector Allocation			
What Helped:		What Hurt:			Fund	Benchmark	
Aristocrat Leisure	OW	Metlifecare	OW	Utilities	19.63%	19.42%	
Ryman Healthcare	NH	Summerset	OW	Health Care	15.29%	17.75%	
Infratil	OW	Viva Energy	OW	Consumer Staples	13.99%	12.11%	
Top 10 Holdings				Industrials	10.64%	17.22%	
The A2 Milk Company	12.92%	Auckland Int Airport	6.29%	Energy	10.02%	2.72%	
Contact Energy	9.58%	Z Energy	5.61%	Communication Services	9.39%	9.66%	
Spark New Zealand	8.86%	Fletcher Building	5.38%	Consumer Discretionary	8.15%	3.05%	
Infratil	6.89%	Mainfreight	4.35%	Materials	6.17%	3.88%	
Fisher & Paykel Healthcare	6.63%	Summerset Group	4.07%	Real Estate	3.37%	9.82%	
			Number of holdings	33	Information Technology	1.88%	2.01%
				Cash	1.47%	0.00%	
				Financials	0.00%	2.37%	

Market Commentary

Equity markets continued their strong run, backing up the March quarter strength with another positive quarter. This is despite a more muted global growth outlook which has seen bond rates continue to drop with continued trade tensions between the United States and China along with tension in the Middle East. On a year-to-date basis the US S&P 500 index is up 18.3%, the Euro Stoxx 50 index is up 16.5%, the ASX 200 index is up 20.3% and the MSCI world index is up 15.9%. Consistent with the global markets, New Zealand has performed strongly, up 6.8% in the quarter and 19.7% year-to-date as measured by the S&P/NZX 50 index. Over the quarter we also saw both the Reserve Bank of New Zealand and Reserve Bank of Australia cut their official cash rates by 25bps to 1.5% and 1.25% respectively.

Fund Commentary

The fund produced a strong absolute return of 5.4% but wasn't able to match the benchmark which was up 6.8%. The largest positive contributors to relative return were overweight positions in **Aristocrat Leisure** (ALL) and **Infratil** (IFT) and a nil holding in Ryman Healthcare. ALL rose 26.7% (in AUD) after posting a strong half year earnings result while IFT produced an 18.3% return as a capital raising to fund the acquisition of Vodafone NZ was well supported. RYM ended the quarter down 3.1%, impacted by concerns around the housing market and also reporting a result at the bottom of its guidance range. The largest negative contributors to relative return were overweight positions **Metlifecare** (MET), **Summerset** (SUM) and **Viva Energy** (VEA). MET and SUM continue to be impacted by the negative sentiment to the housing market, ending the quarter down 12.0% and 15.6% respectively. VEA fell 13.9% (in AUD), initially impacted by a downgrade from one of its competitors along with a weaker refining margin.

(Bold denotes stock held in portfolio)

Key Fund Facts

Distributions

Wholesale fund: Calendar quarter
Retail fund: March and September
KiwiSaver fund: Does not distribute

Estimated annual fund charges (incl. GST)

Wholesale: Negotiated outside of fund
Retail: 1.02%, refer PDS for more details
KiwiSaver: 0.97%, refer PDS for more details. Fee waived until 30/9/19

Hedging

Foreign currency exposures may be hedged to NZD at the Manager's discretion within an operational range of 0% to 105%. Currently, the fund's foreign currency exposure is unhedged

Buy / Sell spread

0.29% / 0.29%

Strategy size

\$612.3m

Strategy Launch

October 2007

Compliance

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

Contact Us

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