

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

- Equity markets continue to push higher on the back of low interest rates.
- In local currency, the United States S&P 500 index rose 1.3%, the Japanese Nikkei 225 index increased 1.2%, the FTSE 100 index added 2.2%, the ASX 200 index was up 2.9% and the MSCI World index ended the month up 0.9%.
- The S&P/NZX 50 index continues to perform well against our international peers, up 3.4% for the month and 23.8% calendar year-to-date.
- Bond yields continued to fall globally with the NZ 10-year bond ending the month at 1.44% and the Australian 10 year bond at 1.19%.

Fund Highlights

- The fund ended the month up 4.1%, 0.7% ahead of the index.
- Key positions that added value were overweights in A2 Milk and Viva Energy, together with underweights in Auckland International Airport and Chorus. Overweights in Contact Energy and Infratil and an underweight in Ryman Healthcare detracted from value.

Performance

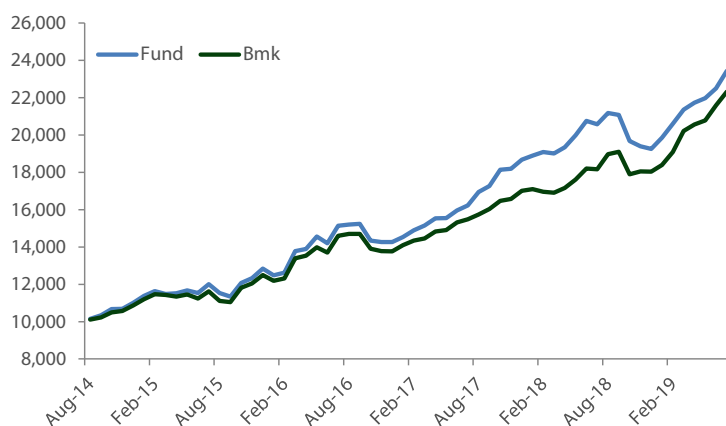
	One month	Three months	One year	Three years (p.a)	Five years (p.a)	Ten years (p.a)
Wholesale ¹	4.15%	7.85%	13.91%	15.69%	18.57%	15.58%
Benchmark ²	3.41%	8.58%	22.92%	15.21%	17.43%	15.09%
Retail ³	3.82%	7.32%	12.76%	14.16%	17.00%	
KiwiSaver ³	3.94%	7.62%	13.95%			

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.

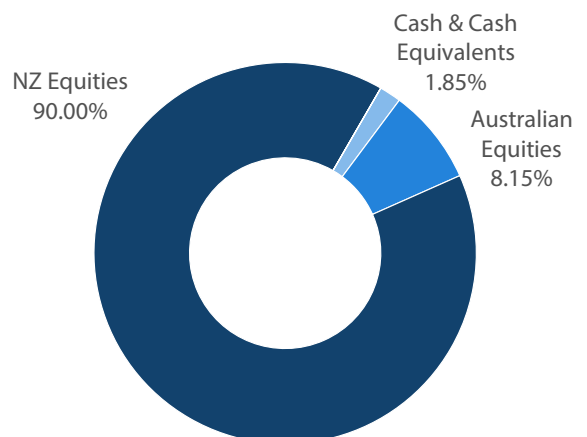
Overview

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 (month)			
What Helped:		What Hurt:	
The A2 Milk Company	OW	Ryman Healthcare	NH
Auckland Int Airport	UW	Contact Energy	OW
Viva Energy	OW	Infratil	OW
Top 10 Holdings			
The A2 Milk Company	15.33%	Auckland Int Airport	5.67%
Contact Energy	9.29%	Z Energy	5.50%
Spark New Zealand	8.61%	Fletcher Building	5.25%
Fisher & Paykel Healthcare	6.78%	Mainfreight	4.30%
Infratil	6.58%	Summerset Group	3.94%
Number of holdings			31

Sector Allocation	Fund	Benchmark
Utilities	18.84%	16.86%
Consumer Staples	16.32%	14.10%
Health Care	14.57%	17.99%
Energy	10.05%	2.79%
Industrials	9.97%	15.36%
Communication Services	9.15%	9.45%
Consumer Discretionary	7.85%	5.80%
Materials	6.17%	4.23%
Real Estate	3.19%	9.24%
Information Technology	2.04%	1.84%
Cash	1.85%	0.00%
Financials	0.00%	2.34%

Market Commentary

Equity markets continue to be driven by the low interest rate environment rather than company earnings or the economic outlook. On the back of further reductions in bond rates, equity markets pushed higher over the month. The United States S&P 500 index rose 1.3%, the Japanese Nikkei 225 index increased 1.2%, the FTSE 100 index added 2.2%, the ASX 200 index was up 2.9% and the MSCI World index ended the month up 0.9%. The S&P/NZX 50 index continues to perform well against our international peers, up 3.4% for the month and 23.8% calendar year-to-date.

Fund Commentary

The fund produced another strong absolute return of 4.1% and ahead of the benchmark which was up 3.4%. The largest positive contributors to relative return were an overweight in **A2 Milk** (ATM), rising 22.8% following several broker upgrades and expectations of a strong earnings result to be released in August, and **Viva Energy** (VEA), which rallied 13.7% over the month benefitting the fund. The underweight positions in **Auckland International Airport** (AIA), **Meridian Energy** (MEL) and **Chorus** (CNU) benefitted the fund. AIA fell 5.5% as passenger growth declines while CNU and MEL lost 3.1% and 1% respectively versus a strong market. The largest negative contributors to relative return were overweights in **Contact Energy** (CEN) and **Infratil** (IFT) and an underweight in Ryman Healthcare (RYM). Taking a breather following recent strong runs CEN lost 2.6% while IFT ended the month flat. On no specific news RYM rose 9.8%.

Key portfolio changes were adding to ATM early in the month and then reducing at a higher price later in the month. Adding to **Spark** (SPK) while **SkyCity Entertainment** (SKC) was reduced. A small residual holding in **Japara Healthcare** (JHC) was exited.

(**Bold** denotes stock held in portfolio)

Key Fund Facts

Distributions		Estimated annual fund charges (incl. GST)	
Wholesale fund:	Calendar quarter	Wholesale:	Negotiated outside of fund
Retail fund:	March and September	Retail:	1.02%, refer PDS for more details
KiwiSaver fund:	Does not distribute	KiwiSaver:	0.97%, refer PDS for more details. Fee waived until 30/9/19
Hedging		Buy / Sell spread	Strategy size
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		0.29% / 0.29%	\$451.8m
		Strategy Launch	October 2007

Compliance

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

Contact Us

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