

Factsheet 30 September 2019

NIKKO AM CONCENTRATED EQUITY STRATEGY

Assets are held in the Nikko AM Wholesale Concentrated Equity Fund. The Nikko AM Concentrated Equity Fund (retail) invest in units in the wholesale fund, which the commentary refers to.

Market Overview

- Low interest rates outweighed global macro concerns to push equity markets higher.
- The United States S&P 500 index ended the quarter +1.2%, the Japanese Nikkei 225 index +2.3%, FTSE 100 index -0.2%, ASX 200 index +2.4% and MSCI World index +0.9% all in local terms.
- In NZ, the S&P/NZX 50 index continues to perform well against our international peers, up 4.4% for the quarter and 25.0% year to date
- Bond yields continued to fall globally with the NZ 10-year bond ending the quarter at 1.09% (down from 1.57% three months ago) and the Australian 10-year bond finished at 1.02%. US 10-year bond yield ended at 1.68% (down from 2.00% a quarter ago).

Fund Highlights

- The fund ended the quarter down 0.9%, behind the NZSE50 index.
- NZX50 was pushed higher by names not held in the portfolio including Spark +14.2%, F&P Healthcare +11.9%, Meridian +13.0% and Ryman +13.1%, collectively contributing more than half the NZX move for the month.
- Positions in Z Energy (ZEL) and A2 Milk (ATM) detracted value.

Performance

	One month	Three months	One year	Three years (p.a)	Five years (p.a)	Ten years (p.a)
Wholesale ¹	-0.04%	-0.88%	1.98%	13.06%	16.63%	13.41%
Benchmark ²	0.48%	1.53%	6.58%	6.70%	7.17%	7.41%
NZSE50 ³	1.79%	4.36%	17.96%	15.30%	17.12%	14.62%
Retail ⁴	-0.13%	-1.15%	1.01%	11.00%	13.99%	11.08%

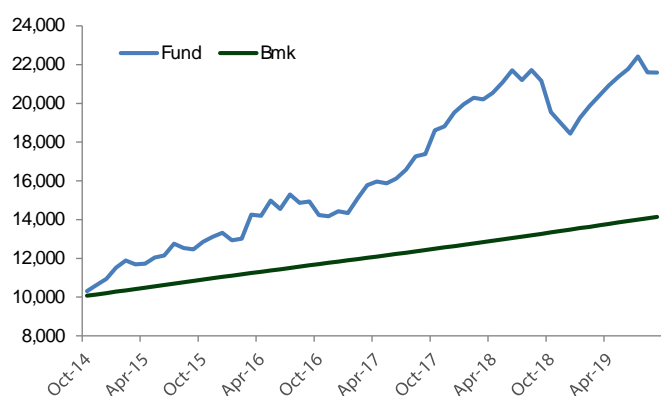
1. Returns are before tax and before the deduction of fees

2. Benchmark: RBNZ Official Cash Rate plus 5% per annum. No tax or fees.

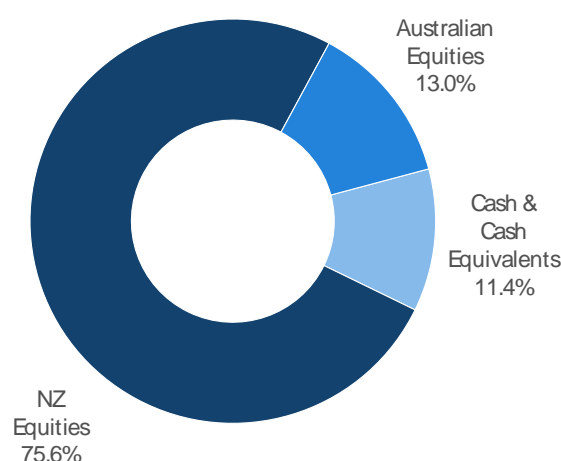
3. S&P / NZX 50 Index Gross (with Imputation Credits). No tax or fees.

4. 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}



Asset Allocation



Portfolio Manager

James Lindsay,
Senior Portfolio Manager

James joined Nikko AM in 1998 and covers the Telecommunications, Media, IT, Utilities and Infrastructure sectors. He has over 20 years' experience covering Australasian share markets in funds management and share broking.



Overview

The Concentrated Equity Fund is a collection of the portfolio manager's highest conviction investment ideas to achieve capital appreciation. The typical number of stocks in the portfolio is 15 or less.

Objective

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

Contribution to Performance (quarter)	
What Helped:	What Hurt:
Contact Energy	The A2 Milk Company
Infratil	Z Energy
Metlifecare	Pushpay Holdings
Absolute contribution – not relative to S&P/NZX50 Index	

Top 10 Holdings			
The A2 Milk Company	15.00%	Z Energy	9.63%
Contact Energy	14.86%	EROAD	5.16%
Infratil	14.04%	Pushpay Holdings	4.29%
Aristocrat Leisure	9.83%	Orocobre Limited	2.53%
Metlifecare	9.69%	Sanford Limited	1.61%
Number of holdings			12

Market Commentary

Equity markets generally ended the quarter higher with the low interest rate environment outweighing trade tariffs between China and the United States, concerns around global growth, Hong Kong, Brexit and an attack on a Saudi Arabia oil facility. The United States S&P 500 index rose 1.2%, the Japanese Nikkei 225 index increased 2.3%, the FTSE 100 index fell 0.2%, the ASX 200 index was up 2.4% and the MSCI World index ended the quarter up 0.9%. The S&P/NZX 50 index continues to perform well against our international peers, up 4.4% for the quarter and 25% year-to-date. Companies with June half or year ends reported results during the quarter which on balance were in line with or better than expected although outlook statements were cautious.

Fund Commentary

The fund fell in value over the quarter, down 0.9%. The largest positive contributors to return were **Contact Energy** (CEN) and **Infratil** (IFT). CEN reported a good result and investors remained attracted to its relatively strong dividend yield and ended the quarter up 10.5%. IFT rallied after its purchase of Vodafone was well received. Its exposure to CDC/data centres continued to be sought after by investors. The largest negative contributors to relative return were positions in **Z Energy** (ZEL) and **A2 Milk** (ATM). ZEL lost 11.4% after downgrading its earnings guidance due to increasing retail competition and margin pressure. ATM produced another result which demonstrated ongoing, stellar earnings growth. In addition they hosted their first ever investor day, located in Shanghai. Yet the stock still retraced over the period due to growing concerns around the future cost required to meet their growth ambitions. Also the company's strict interpretation of what is strategically sensitive meant they left some investor day attendees without the colour or comfort they hoped to receive.

Key portfolio changes in the quarter included adding to **Infratil** (IFT) and **Contact Energy** (CEN). **Sanford** (SAN), **Orocobre** (ORE) and **NEXTDC** (NXT) were added to the portfolio during the period and Spark (SPK) and Sky TV (SKT) were sold. (**Bold** denotes stocks held in the portfolio)

Key Fund Facts

Distributions	Estimated annual fund charges (incl GST)	Strategy size
Wholesale fund: Calendar quarter	Wholesale: negotiated outside of fund	\$110.5m
Retail fund: March and September	Retail: 1.15%, refer PDS for more details	
Hedging	Buy / Sell spread: 0.29% / 0.29%	Strategy Launch
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	Performance fee 10% on gains above benchmark over 12 month period after fees and expenses. High water mark applies.	August 2006

Compliance

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

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