

# 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 moved modestly higher and continued supporting equity markets pushing higher.
- Over the quarter, the United States S&P 500 index rose 8.5%, the Japanese Nikkei 225 index increased 8.7%, the UK FTSE 100 index ground only 1.8% higher, the Australian ASX 200 index was up 0.7% and the MSCI World index ended the quarter up 8.7%, all in local terms.
- The S&P/NZX 50 Gross Index (with Imputation Credits) continues to perform well against our international peers up 5.3% for the quarter and 31.6% for the year versus the S&P 500 which returned 28.9%.
- Bond yields eased with the NZ 10-year bond ending the quarter at 1.65%, the Australian 10-year bond at 1.37% and US 10-year bond at 1.92%.

## Fund Highlights

- The fund ended the quarter up 6.79% and 25.06% for the year.
- Key positions that performed well were Metlifecare, A2 Milk, Push Pay, Aristocrat Leisure and Sanford.
- Contact Energy and Z Energy performed very poorly during the quarter.

## Performance

	One month	Three months	One year	Three years (p.a)	Five years (p.a)	Ten years (p.a)
Wholesale <sup>1</sup>	1.38%	6.79%	25.06%	16.90%	16.08%	13.86%
Benchmark <sup>2</sup>	0.50%	1.48%	6.39%	6.63%	7.04%	7.37%
NZSE50 <sup>3</sup>	1.60%	5.34%	31.64%	19.94%	16.93%	14.94%
Retail <sup>4</sup>	1.37%	6.27%	23.47%	14.73%	13.58%	11.52%

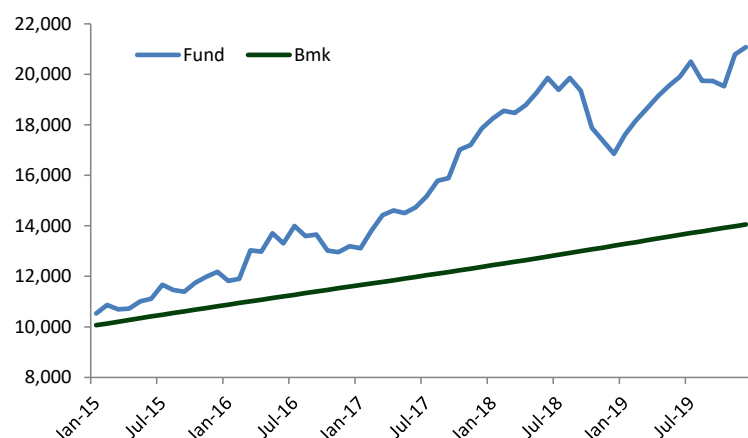
1. Returns are before tax and before the deduction of fees.

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 <sup>1,2</sup>



## 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.

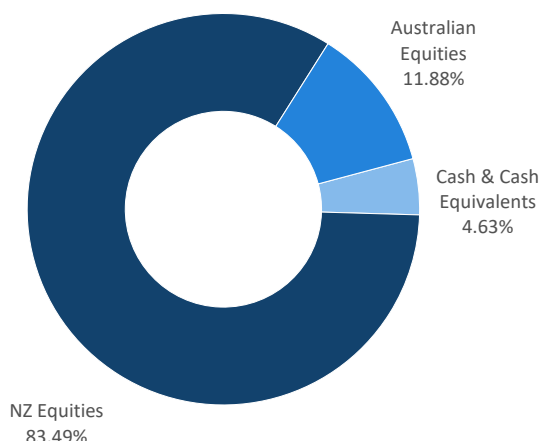
## Overview

The 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.

## Asset Allocation



Contribution to Performance (quarter)	
What Helped:	What Hurt:
Metlifecare	Contact Energy
The A2 Milk Company	Z Energy
Pushpay Holdings	Spark NZ Ltd

Absolute contribution – not relative to S&P/NZX50 Index

Top 10 Holdings			
Metlifecare	15.42%	Spark NZ Ltd	7.72%
Infratil	13.00%	Pushpay Holdings	5.44%
Contact Energy	12.24%	Z Energy	4.86%
The A2 Milk Company	11.88%	EBOS	4.42%
Aristocrat Leisure	8.38%	EROAD	3.77%
<b>Number of holdings</b>			<b>15</b>

## Market Commentary

Equity markets performed strongly over the quarter supported by low interest rates. Trade talks between China and the United States are neutral for now at least and the UK election delivered a clear Brexit mandate. Concerns around global growth eased a little while Hong Kong remains concerning for the world. Companies with September half year ends reported results during the quarter which on balance were in line with or better than expected although outlook statements were cautious. The Australian market performed very poorly versus the rest of the world in the quarter with banking sector woes continuing.

## Fund Commentary

The large position in **Metlifecare** (MET) rose 53% after announcing they have received a takeover offer, which following negotiation by the Board and an improved price offer, has now been recommended by Board. The offer is revised \$7.00 versus the 30 September 2019 price of \$4.46. The takeover for MET together with improving housing market data also supported the retirement sector generally. **A2 Milk** (ATM) gained 13.8% over the quarter due primarily to an improved earnings outlook for the year release at the Annual Shareholders Meeting in November. ATM also announced late in the quarter the surprise departure of CEO Jayne Hrdlicka and the immediate appointment of Geoff Babidge (the previous CEO).

During the quarter stock prices were weak for electricity companies due to the Tiwai Point aluminium smelter’s review of its operation. **Contact Energy** (CEN) fell 16.5%, detracting from performance. **Z Energy** (ZEL) negatively surprised the market again, downgrading earnings forecasts, citing refinery earnings, retail competition and margin pressure.

Key portfolio changes in the quarter included adding **Spark** (SPK), **Ebos Healthcare** (EBO) through a cornerstone sell down, introducing **Kiwi Income Property** (KIP) and **Serko** (SKO), both small positions. The fund’s positions in ATM, **Aristocrat Leisure** (ALL) and **Infratil** (IFT) were all reduced modestly. ZEL was reduced materially after their earnings downgrade. (**Bold** denotes stocks held in the portfolio)

## Key Fund Facts

<b>Distributions</b>	<b>Estimated annual fund charges (incl. GST)</b>	<b>Strategy size</b>
Wholesale fund: Calendar quarter	Wholesale: negotiated outside of fund	\$104.6 m
Retail fund: March and September	Retail: 1.15%, refer PDS for more details	
<b>Hedging</b>	<b>Buy / Sell spread: 0.29% / 0.29%</b>	<b>Strategy Launch</b>
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.	<b>Performance fee</b>	August 2006
	10% on gains above benchmark over 12 month period after fees and expenses. High water mark applies.	

## Compliance

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

## Contact Us

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