

NIKKO AM CORE EQUITY STRATEGY

Assets are held in the Nikko AM Wholesale Core Equity Fund. The Nikko AM Core Equity Fund (retail) and Nikko AM KiwiSaver Core Equity Fund 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 Index Gross (with Imputation Credits) continues to perform well against our international peers up 5.3% 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 5.19%, 0.15% behind the index.
- Key positions that added value were overweights in Metlifecare, Summerset and underweights in Meridian Energy.
- Overweights in Contact Energy and Z Energy and underweights in Ryman Healthcare and Fisher & Paykel Healthcare, detracted from value

Performance

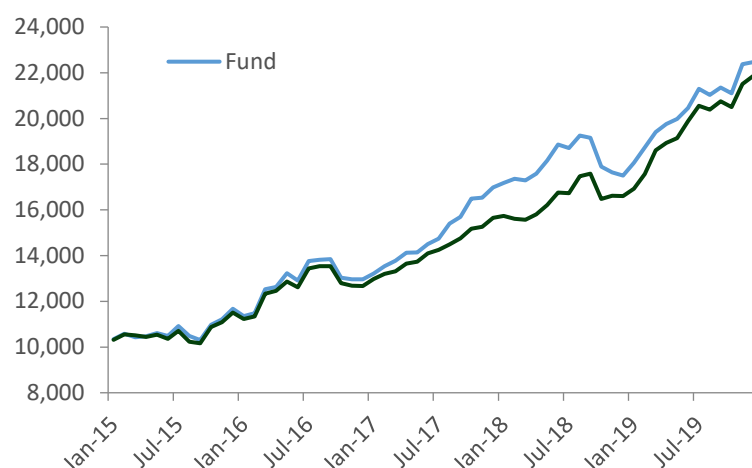
	One month	Three months	One year	Three years (p.a)	Five years (p.a)	Ten years (p.a)
Wholesale ¹	0.39%	5.19%	28.34%	20.11%	17.57%	15.29%
Benchmark ²	1.60%	5.34%	31.64%	19.94%	16.93%	14.94%
Retail ³	0.29%	4.92%	26.71%	18.55%	16.06%	
KiwiSaver ³	0.32%	4.97%	27.80%			

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.

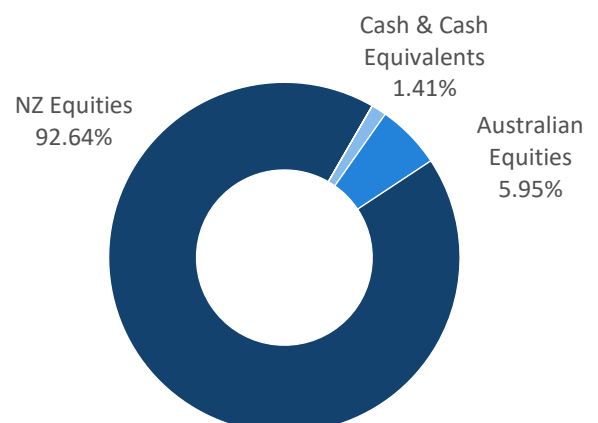
Overview

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)			
What Helped:		What Hurt:	
Metlifecare	OW	Z Energy	OW
Summerset Group Holdings	OW	Ryman Healthcare	NH
Meridian Energy	UW	Contact Energy	OW
Top 10 Holdings			
The A2 Milk Company	11.56%	Auckland Int Airport	5.51%
Spark New Zealand	9.07%	Metlifecare	5.31%
Fisher & Paykel Healthcare	9.03%	Summerset Group	5.22%
Contact Energy	8.04%	Mainfreight	4.37%
Infratil	6.22%	Meridian Energy	4.10%
Number of holdings			34

Sector Allocation	Fund	Benchmark
Health Care	21.89%	20.52%
Utilities	20.21%	18.86%
Consumer Staples	13.10%	10.86%
Communication Services	10.03%	10.01%
Industrials	9.87%	16.39%
Consumer Discretionary	6.63%	3.41%
Energy	6.52%	2.30%
Materials	4.10%	3.59%
Real Estate	3.74%	10.19%
Information Technology	2.50%	1.51%
Cash	1.41%	0.00%
Financials	0.00%	2.36%

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 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 largest positive contributors to relative return were overweights in **Metlifecare** (MET) and **Summerset** (SUM). 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 at \$7.00 versus the 30 September 2019 price of \$4.46. The takeover for MET together with improving housing market data also supported SUM which rose 34% in the quarter. These positives were somewhat offset by our nil holding in Ryman Healthcare (RYM). 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 relative performance. **Z Energy** (ZEL) negatively surprised the market again, downgrading earnings forecasts, citing refinery earnings, retail competition and margin pressure. **Fisher & Paykel Healthcare** (FPH) rallied strongly (+29%) detracting value given our underweight position.

Key portfolio changes in the quarter included adding **Ebos Healthcare** (EBO) through a cornerstone sell down, introducing **Kiwi Income Property** (KIP) and a small position in **Serko** (SKO). Positions were increased in CEN, **Meridian Energy** (MEL) and ZEL. The fund’s positions in **Fletcher Building** (FBU), **A2 Milk** (ATM), **Aristocrat Leisure** (ALL), **NZ Refining** (NZR), **Restaurant Brands** (RBD), **Infratil** (IFT) and **Viva Energy** (VEA) were all reduced to varying degrees. The ZEL overweight was reduced post the earnings downgrade.

(**Bold** denotes stocks held in the 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.

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

\$470.95m

Strategy Launch

October 2007

Compliance

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

Contact Us

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