

Factsheet 29 February 2020

# 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

- COVID-19 fears saw equity markets sell off sharply and bond yields rally around the globe.
- The United States S&P 500 index lost 8.4%, the Japanese Nikkei 225 index fell 8.9%, the UK FTSE 100 index lost 9.7%, while the Australian ASX 200 index fell 7.7% and the MSCI World index ended the month down 8.2% in local terms.
- The S&P/NZX 50 index fell 3.9% to materially outperform our international peers.
- Bond yields fell in response to coronavirus concerns with the NZ 10-year bond ending the month at 1.05%, the Australian 10-year bond at 0.82% and US 10-year bond at 1.15%.

## Fund Highlights

- The fund ended the month down 4.09%, 0.2% behind the index.
- Key positions that added value were an overweight in A2 Milk, nil positions in both Air New Zealand and Port of Tauranga, and an underweight in Ryman Healthcare. Overweight positions in New Zealand Refining, Summerset Group, Contact Energy and underweight Fisher & Paykel Healthcare detracted value.

## Performance

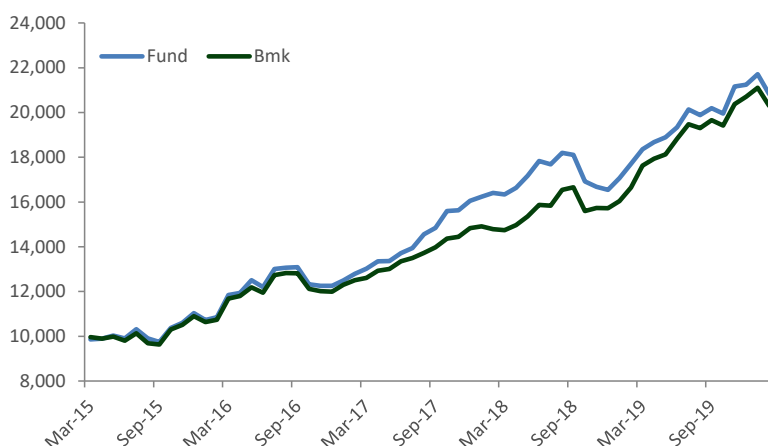
	One month	Three months	One year	Three years (p.a)	Five years (p.a)	Ten years (p.a)
Wholesale <sup>1</sup>	-4.09%	-1.59%	17.56%	17.62%	15.80%	15.23%
Benchmark <sup>2</sup>	-3.86%	-0.40%	21.90%	17.51%	15.21%	14.98%
Retail <sup>3</sup>	-4.18%	-1.86%	16.09%	16.08%	14.32%	
KiwiSaver <sup>3</sup>	-4.18%	-1.82%	16.87%			

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<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.

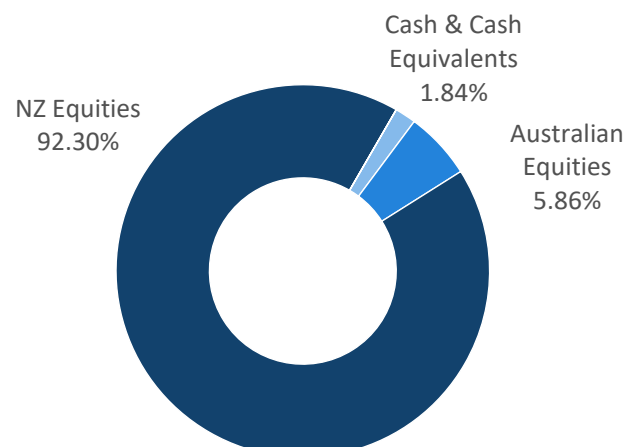
## Overview

The 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	New Zealand Refining	OW
Air New Zealand	NH	Summerset Group	OW
Ryman Healthcare	UW	Fisher & Paykel Healthcare	UW
Top 10 Holdings			
The A2 Milk Company	12.95%	Summerset Group	4.80%
Fisher & Paykel Healthcare	10.96%	Auckland Int Airport	4.72%
Spark New Zealand	9.59%	Meridian Energy	3.95%
Contact Energy	7.88%	Fletcher Building	3.79%
Infratil	6.63%	Mainfreight	3.78%
Number of holdings			34

Sector Allocation	Fund	Benchmark
Health Care	22.12%	24.91%
Utilities	20.30%	17.36%
Consumer Staples	14.40%	12.16%
Communication Services	10.40%	10.09%
Industrials	8.50%	13.77%
Energy	5.68%	1.61%
Consumer Discretionary	5.65%	2.84%
Materials	4.68%	3.78%
Real Estate	3.80%	10.10%
Information Technology	2.62%	1.28%
Cash	1.85%	0.00%
Financials	0.00%	2.10%

## Market Commentary

Global concerns around coronavirus overwhelmed all other news from investment markets. The spread of the virus and the gathering momentum in deaths which inevitably followed, caused countries around the world to announce policy aimed to control the virus' spread. Trade developments, Brexit implications, supportive economic statistics (historical numbers) and generally positive earnings season announcements, all took a back seat to COVID-19. The defensive characteristics of the New Zealand market somewhat insulated us from larger markets falls. The negative economic growth implications are now being digested by investment markets, central banks and governments, with initial policy responses emerging.

## Fund Commentary

The fund modestly underperformed the market over the month, down 4.1% compared to the 3.9% return of the index. The strong earnings announcement from **A2 Milk** (ATM) and the positive commentary about ongoing China demand and their ability to deliver product saw the stock rally 8.7%. ATM was the largest positive contributor to relative return. Nil holdings in Air NZ and Port of Tauranga added value given these stocks direct reliance on trade and travel. Our underweight position in **Ryman Healthcare** (RYM) also added value as the share price fell following a strong recent price run.

Overweights in **NZ Refining** (NZR) and **Summerset Group** (SUM) detracted from performance. NZR reporting a weak refinery margin and muted outlook while SUM reported a better than expected FY19 result with limited earnings growth for FY20. Fisher & Paykel Healthcare (FPH) an underweight, detracted from value as the stock posted a mild earnings upgrade and benefited from the positive sentiment from COVID-19.

Key portfolio changes in the month included adding Ryman Healthcare to the fund and adding to existing positions in Ebos Group and **Fletcher Building**. **Metlifecare** (MET) was reduced along with **Aristocrat Leisure** (ALL) and a small holding in Serko was exited. Cash holdings increased over the month.

(**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

### 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.

### 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.

### Buy / Sell spread

0.29% / 0.29%

### Strategy size

\$450.6m

### 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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