

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

- The global response to COVID-19 saw equity markets sell off sharply and bond yields rally around the globe.
- Over the quarter the US S&P 500 index lost 20.0%, the Japanese Nikkei 225 index fell 20.0%, the UK FTSE 100 index lost 24.8%, while the Australian ASX 200 index fell 23.4% and the MSCI World index ended the quarter down 19.5% (in local currency).
- The S&P/NZX 50 index fell 14.6% although the spread between large capitalisation stocks (top 10) and small capitalisation stocks was large with large cap stocks down 7.5% vs small caps down 34.0%.

Fund Highlights

- The fund ended the quarter down 14.37%, marginally ahead of the index.
- Underweight positions in Ryman Healthcare and Auckland International Airport, and nil position in Air New Zealand added value.
- Overweight positions in New Zealand Refining and Summerset Group, and an underweight position in Fisher & Paykel Healthcare detracted from value.

Performance

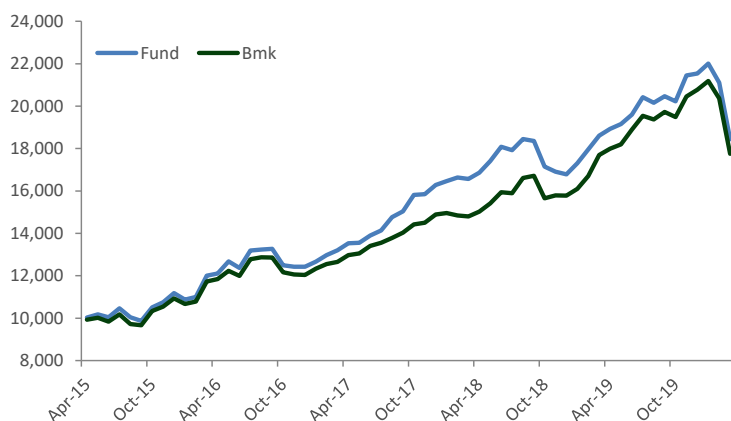
	One month	Three months	One year	Three years (p.a)	Five years (p.a)	Ten years (p.a)
Wholesale ¹	-12.65%	-14.37%	-0.89%	11.78%	13.02%	13.19%
Benchmark ²	-12.83%	-14.55%	0.36%	11.95%	12.17%	12.98%
Retail ³	-12.63%	-14.50%	-2.02%	10.42%	11.61%	
KiwiSaver ³	-12.66%	-14.52%	-1.49%			

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.

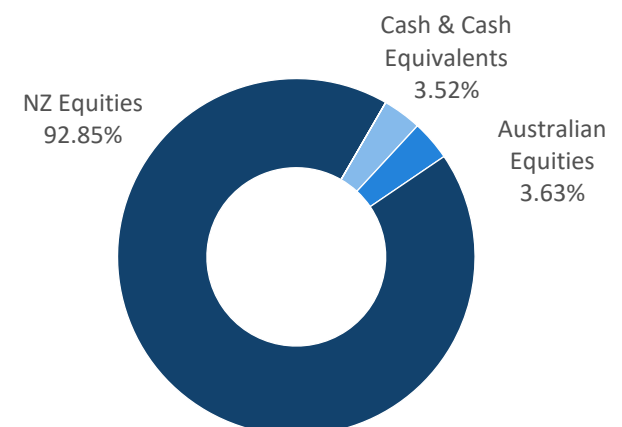
Overview

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:	
Ryman Healthcare	UW	Summerset Group	OW
Air New Zealand	NH	New Zealand Refining	OW
Auckland Int Airport	UW	Fisher & Paykel Healthcare	UW
Top 10 Holdings			
Fisher & Paykel Healthcare	16.19%	Meridian Energy	5.07%
The A2 Milk Company	15.43%	Mainfreight	3.99%
Spark New Zealand	10.75%	Summerset Group	3.89%
Contact Energy	7.77%	Fletcher Building	3.14%
Infratil	6.06%	Auckland Intl Airport	2.91%
Number of holdings			34

Sector Allocation	Fund	Benchmark
Health Care	24.52%	27.74%
Utilities	20.76%	17.20%
Consumer Staples	17.49%	14.74%
Communication Services	11.33%	10.84%
Industrials	6.90%	11.50%
Materials	3.92%	2.96%
Energy	3.71%	1.32%
Cash	3.53%	0.00%
Real Estate	3.04%	9.28%
Information Technology	2.66%	0.97%
Consumer Discretionary	2.14%	1.80%
Financials	0.00%	1.65%

Market Commentary

Global concerns around COVID-19 overwhelmed all other news from investment markets. As the virus spread across the globe and the gathering momentum in deaths which inevitably followed caused countries around the world to announce policy aimed at controlling the virus' spread. Countries forced citizens to stay at home and isolate and businesses to close resulting in a massive economic fallout which has been reflected in financial markets. The monetary and fiscal response from governments and central banks has been enormous but only time to tell how long the business closures will last, how fast the recovery will be and what shape those businesses that survive will be in.

Fund Commentary

The fund ended the quarter down 14.4% and slightly ahead of the index return of 14.6%. As new information came out on COVID-19 and restrictions were put in place the market saw wild swings in individual stock prices and ultimately large drops over the quarter. The largest positive contributors to relative return were underweight positions in **Ryman Healthcare** (RYM) and **Auckland International Airport** (AIA) and nil position in Air New Zealand (AIR). RYM fell 36.9% as investors considered the impact on the retirement sector and the ability to sell units along with RYM removing its earnings guidance only one week out from the end of their financial year. Both AIR and AIA were immediately impacted by the closure of borders and instruction to New Zealanders to remain at home. AIR dropped 71.0% while AIA lost 43.0% over the quarter. The largest negative contributors to relative return were overweight positions in **NZ Refining** (NZR) and **Summerset Group** (SUM) and an underweight position in **Fisher & Paykel Healthcare** (FPH). As expected, NZR reported a weak refinery margin and the short term outlook for refinery margins is uncertain as the COVID-19 impacts on demand for refined products. NZR fell 58.5%. Similar to RYM, SUM suffered from the negative sentiment to the retirement sector and its ability to sell units and fell 38.1% over the quarter. FPH rose 36.9% as the stock posted a mild earnings upgrade and benefited from the positive sentiment from COVID-19.

Key portfolio changes in the quarter included adding **Ryman Healthcare** (RYM) along with **Oceania Healthcare** (OCA) through a sell down by an existing shareholder. Positions in **Metlifecare** (MET), AIA and **Sky City Entertainment** (SKC) were reduced while a small holding in Serko (SKO) was exited. (**Bold** denotes stocks held in the 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.	
Hedging	Buy / Sell spread	Strategy size	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.	0.29% / 0.29%	\$392.7m	October 2007

Compliance

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

Contact Us

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