

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

- Supported by low interest rates, most equity markets globally performed well during the quarter and somewhat ignored the health and economic impacts from COVID-19.
- Over the quarter, the United States S&P 500 index rose 8.5%, the Japanese Nikkei 225 index was up 4.0% while the UK FTSE 100 index and the Australian ASX 200 index fell 4.9% and 0.4% respectively. The MSCI World index ended up 6.5%
- The S&P/NZX 50 index ended the quarter up 2.9% and is up 2.8% on a calendar year to date basis.

Fund Highlights

- The fund ended the quarter up 2.9%, in line with the index return
- News flow was high during the quarter with a number of the fund's holdings reporting earnings for the period ended June.
- The fund participated in the equity raising by EROAD.
- Overweight positions in Summerset, Contact Energy and NextDC added value. Underweight positions in Goodman Property and Chorus and an overweight position in A2 Milk detracted from value.

Performance

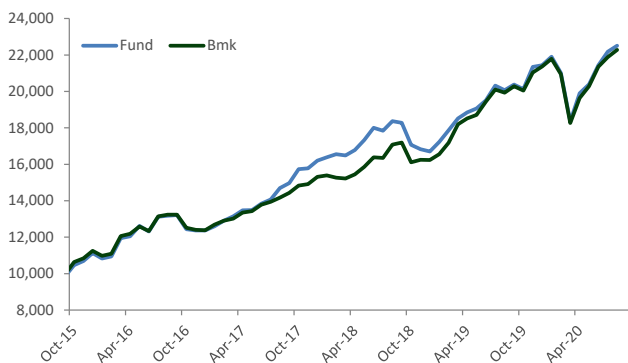
	One month	Three months	One year	Three years (p.a)	Five years (p.a)	Ten years (p.a)
Wholesale ¹	-2.00%	2.89%	8.23%	13.77%	17.54%	15.57%
Benchmark ²	-1.41%	2.86%	8.26%	15.02%	17.18%	15.34%
Retail ³	-2.06%	2.66%	7.27%	12.50%	16.11%	14.15%
KiwiSaver ³	-2.08%	2.65%	7.32%			

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



Responsible for the Domestic Equities team and managing the Core Fund and associated mandates. Covers the Industrials, Healthcare and Financials sectors. Twenty years of experience in all aspects of the investment management industry with a strong track record in portfolio management of both benchmark relative and high conviction funds. Joined 2014.

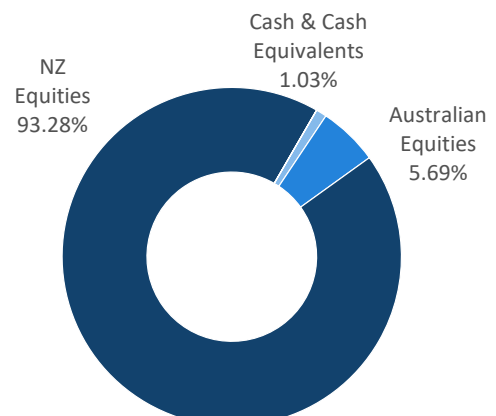
Overview

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:	
Summerset Group	OW	The A2 Milk Company	OW
Contact Energy	OW	Chorus	UW
NextDC	OW	Goodman Property	NH
Top 10 Holdings			
Fisher & Paykel Healthcare	16.09%	Meridian Energy	4.95%
The A2 Milk Company	11.03%	Summerset Group	4.94%
Spark New Zealand	10.01%	Infratil	4.48%
Contact Energy	6.96%	Mainfreight	4.38%
Auckland Intl. Airport	5.94%	Z Energy	3.23%
Number of holdings			32

Sector Allocation	Fund	Benchmark
Health Care	25.44%	27.06%
Utilities	19.29%	17.16%
Consumer Staples	12.67%	10.91%
Communication Services	11.83%	10.47%
Industrials	10.33%	14.92%
Information Technology	4.50%	1.17%
Real Estate	4.43%	2.85%
Consumer Discretionary	4.07%	9.03%
Energy	3.92%	2.13%
Materials	2.49%	2.61%
Cash	1.03%	0.00%
Financials	0.00%	1.69%

Market Commentary

Supported by low interest rates, most equity markets globally performed well during the quarter and somewhat ignored the health and economic impacts from COVID-19. During the quarter a number of companies reported their earnings results for the period ended June. As expected, results were heavily impacted by the lockdown earlier in the year while outlook statements were very uncertain, more so as the country went back into lockdown during the quarter.

Fund Commentary

The fund ended the quarter up 2.9% and in line with the index return. The largest positive contributors to relative return were overweight positions in **Summerset** (SUM), **NextDC** (NXT) and **Contact Energy** (CEN). SUM rose 40.1% over the quarter after announcing a good sales number for the June quarter and investors became more optimistic around the outlook for house prices. Major political parties have said they will negotiate with the NZ Aluminium Smelter in an effort to delay their closure which has been a positive for the electricity sector. On the back of that CEN added 11.1% over the quarter. NXT rallied 26% following their full-year earnings announcement and positive guidance for FY21. The largest negative contributors to relative return were an underweight position in **Chorus** (CNU), a nil holding in **Goodman Property** (GMT) and an overweight position in **A2 Milk** (ATM). GMT, up 16.5% over the quarter, acquired a development property adjacent to an existing GMT property for \$70m and continues to benefit from investor demand for relatively defensive industrial property exposure. CNU rose 18.2% over the quarter as it benefited from being up-weighted in an index and is being supported by an attractive dividend yield when looking forward a couple of years. While ATM delivered an earnings result as expected, late in the quarter they downgraded their revenue expectations for the current financial year with the stock falling 24.0% during the period.

Key portfolio changes during the month included adding to **Mercury Energy** (MCY) and **Fisher & Paykel Healthcare** (FPH) to move to small overweight positions. The fund's position in **Ryman Healthcare** (RYM) was added to, reducing its underweight position. The fund also participated in the **EROAD** (ERD) and **Orocobre** (ORE) capital raisings, as well increasing its overweight position in **Pushpay** (PPH) and NXT. A new investment into **Waypoint REIT** (WPR) which owns a portfolio of services stations in Australia with an attractive yield and capital structure was introduced into the portfolio.

Relatively small reductions were made to **Infratil** (IFT), **Fletcher Building** (FBU) and **Auckland International Airport** (AIA). The fund's holding in **Metlifecare** (MET) was divested.

(**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:	0.95%, refer PDS for more details
KiwiSaver:	0.95%, 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

\$441.8m

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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