

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

- Equity markets globally were strong on news that COVID-19 vaccines trials were showing high success rates and were starting to be administered.
- The United States S&P 500 index rose 11.7%, the Japanese Nikkei 225 index gained 18.4%, the UK FTSE 100 index increased 10.1%, the Australian ASX 200 index added 13.7% and the MSCI World index ended the quarter up 12.8%.
- The S&P/NZX 50 index had a strong quarter, ending up 11.5%.

Fund Highlights

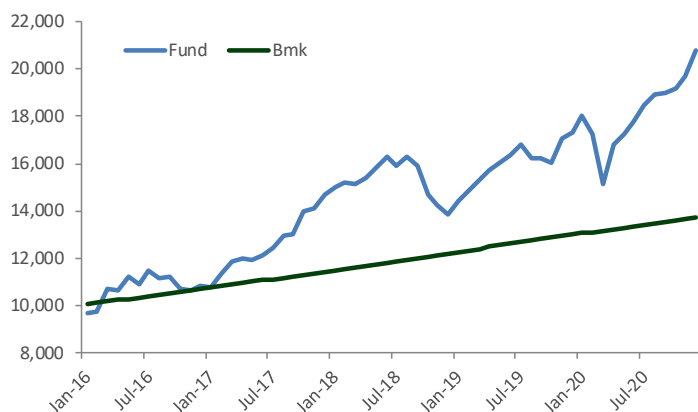
- The fund ended the quarter up 9.4%.
- Positions in Infratil, Contact Energy, Summerset, EBOS Group, Eroad, and Z Energy contributed to returns.
- Positions in A2 Milk, PushPay Holdings and Fisher & Paykel Healthcare detracted from performance.

Performance

	One month	Three months	One year	Three years (p.a)	Five years (p.a)	Ten years (p.a)
Wholesale ¹	5.37%	9.40%	19.91%	12.28%	15.72%	15.37%
Benchmark ²	0.44%	1.30%	5.42%	6.18%	6.50%	7.14%
S&P/NZX 50 ³	2.58%	11.52%	14.62%	16.96%	16.84%	16.10%
Retail ⁴	4.73%	8.28%	17.31%	10.46%	13.48%	12.84%

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 ^{1,2}



Portfolio Manager

Stuart Williams,
Head of Equities



Responsible for the Domestic Equities team and managing the Core and Concentrated Funds 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.

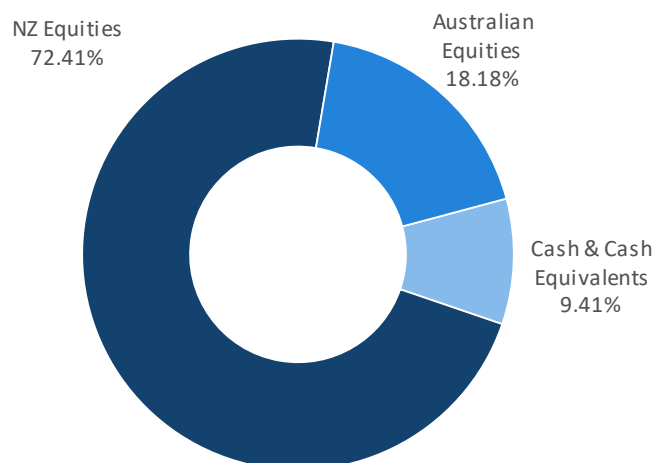
Overview

The 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 circa 15.

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:
Infratil Ltd	A2 Milk
Summerset Group	Pushpay Holdings
Contact Energy	Fisher and Paykel Healthcare

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

Top 10 Holdings			
Infratil Limited	10.89%	EROAD Ltd	5.94%
Contact Energy Limited	10.27%	Aristocrat Leisure Ltd	5.30%
Spark New Zealand	9.60%	EBOS Group Ltd	4.86%
Summerset Group	7.48%	Z Energy	4.56%
A2 Milk	6.60%	Waypoint REIT	4.54%
Number of holdings			15

Market Commentary

What a year 2020 was! As COVID-19 spread across the world early in the year it had a widespread impact: peoples' health, large reductions in GDP as borders were closed and lockdowns put in place along with large losses in equity markets. As central banks and governments responded with monetary and fiscal stimulus bond rates plummeted and resulted in investors seeking higher returns and putting money to work in equity markets. Despite equity markets - as measured by the MSCI World index, falling 20% in the first quarter of the year, by the end of the year the MSCI World index was up 14.2%. The final quarter of the year was particularly strong for equity markets as positive economic news, earnings results and vaccine approvals all provided confidence to investors. The year also saw the United States election where President Trump lost to President Elect Joe Biden and closer to home the Labour Party won the New Zealand election with enough votes to govern alone. So, while we say goodbye or good riddance to 2020, 2021 offers some hope of getting on top of COVID-19 as vaccines are rolled out.

Fund Commentary

The fund ended the quarter up 9.4%. The largest positive contributors were **Infratil (IFT)**, **Summerset (SUM)** and **Contact Energy (CEN)**. AustralianSuper announced that they had made an offer to acquire IFT which IFT had rejected on the grounds that the offer undervalued the company. IFT jumped 48.3% over the quarter. CEN ended the period up 34% benefiting from flows into exchange traded funds that focus on clean energy. SUM rose 39.6% on the back of a strong residential property market along with announcing strong sales numbers for the September quarter.

A2 Milk (ATM), **PushPay Holdings (PPH)** and **Fisher & Paykel Healthcare (FPH)** performed poorly over the quarter. ATM fell 21.3% over the quarter after downgrading its earnings guidance. PPH fell 18.2% as the market sold 'COVID winners' and digested recent company announcements. These announcements included the pending director resignations by long time cornerstone investor interests tied to the Huljich family. FPH has delivered an exceptional return over the year and announced a record half-year result during the quarter. Despite that, FPH lost 4.9% during the fund's holdings period in the quarter as investors digested the potential impact of the COVID-19 vaccine roll out on FPH's earnings in 2021.

During the quarter a new position in FPH was introduced into the fund. The fund's position in Orocobre (ORE) was exited completely following a strong run over recent weeks driven by positive sentiment toward the battery / EV market. While the sentiment and medium term case is positive, the company specific resource development and weak current resource prices are of immediate concern. The fund's position in Sanford (SAN) was also exited completely during the quarter as the company and the industry works through a number of challenges.

(**Bold** denotes stocks held in the portfolio)

Key Fund Facts

Distributions	Estimated annual fund charges (incl. GST)	Strategy size
Wholesale fund: Calendar quarter	Wholesale: negotiated outside of fund	\$136.4m
Retail fund: March and September	Retail: 1.15%, refer PDS for more details	
Hedging	Buy / Sell spread: 0.29% / 0.29%	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.	Performance fee	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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