

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 generally buoyed by positive vaccine rollout along with the hope of what President Biden means for the world.
- The United States S&P 500 index rose 2.6%, the Japanese Nikkei 225 index gained 4.7%, the UK FTSE 100 index gained 1.2%, the Australian ASX 200 index added 1.5% and the MSCI World index ended the month up 1.6%. The S&P/NZX 50 index was a stand-out exception falling 6.9% for the month

Fund Highlights

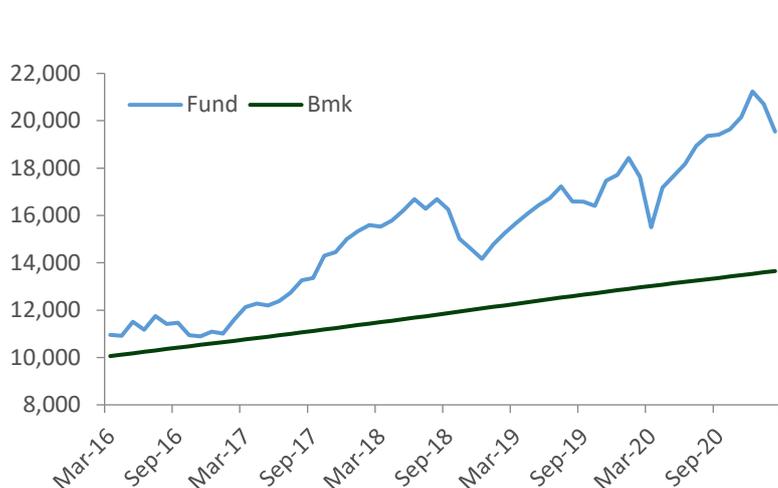
- The fund ended the month down 5.6% in a difficult NZ market.
- A number of the fund's holdings reported results for the period ending December with results generally in line or ahead of market expectations but were overwhelmed by sentiment relating to the long bond sell off.
- Exchange traded fund flows continue to drive share price movements in Contact Energy and Meridian Energy but reversed to selling and contributing to price falls.
- Positions in Summerset, Infracore and PushPay added to value while Fisher & Paykel, Contact Energy and A2 Milk detracted significant value.

Performance

	One month	Three months	One year	Three years (p.a)	Five years (p.a)	Ten years (p.a)
Wholesale ¹	-5.60%	-3.00%	10.87%	7.84%	14.35%	14.11%
Benchmark ²	0.39%	1.27%	5.28%	6.10%	6.42%	7.09%
NZSE50 ³	-6.85%	-4.18%	9.21%	14.43%	15.59%	15.09%
Retail ⁴	-5.23%	-3.02%	9.47%	6.47%	12.34%	11.70%

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.

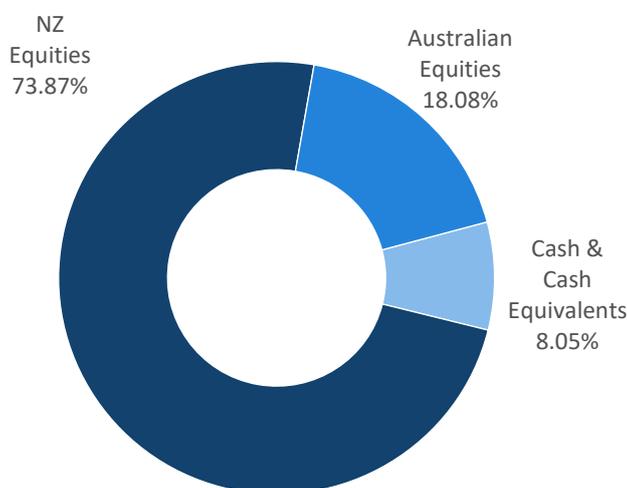
Overview

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 (month)	
What Helped:	What Hurt:
Summerset Group	Fisher & Paykel
Infratil Limited	Contact Energy
PushPay Holdings	A2 Milk

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

Top 10 Holdings			
Infratil Limited	11.61%	Aristocrat Leisure Ltd	5.46%
Fisher & Paykel	9.94%	Skycity Entertainment	5.35%
Spark New Zealand	9.91%	EROAD Ltd	5.33%
Summerset Group	8.10%	EBOS Group Limited	5.10%
A2 Milk Company	5.60%	Contact Energy	4.81%
Number of holdings			16

Market Commentary

Long bonds sold off across the world, but New Zealand was particularly impacted relative to other markets. The New Zealand 10-year government bond traded above 2.0% intra-day before closing the month at 1.90%, up 80bps on the previous month’s close. While a number of companies reported in line or better than expected results for the period ending December, the bond movement dominated. This flowed through to a sell-off in the equity market, in particular yield stocks. In addition, with the confirmation that Meridian Energy and Contact Energy will be down weighted in the iShares Clean Energy ETF, both stocks sold off and also dragged the rest of the sector down.

Fund Commentary

The fund ended the month down 5.6%. The positive contributors **Summerset (SUM)**, **Infratil (IFT)** and **PushPay (PPH)**. SUM rose 5.6% over the period following reporting a result slightly above its guidance range, signalling an increased build rate for the year ahead and benefitting from the strong residential property market. IFT rose 2.2% following an investor day that was well received along with the announcement that Jason Boyes will assume the role of CEO.

Large negative contributors were positions in **Fisher & Paykel Healthcare (FPH)** and **Contact Energy (CEN)**. CEN fell 16% alongside the rest of the sector despite positive earnings announcements for CEN and other sector companies. Announcement on the index methodology changes for the clean energy ETF, effectively highlighting a down-weighting to CEN (and Meridian Energy), plus the sell-off of NZ and international bonds all contributed to the price weakness. FPH sold off ~16% in response to the headlines about the success of vaccine programs around the world and drop-in hospitalisation rates. A2 Milk (ATM) fell ~16% over the month following another degrade to FY21 earnings expectations as the company struggled to regain momentum in the important diagou channel. EROAD (ERD) fell 15.8% over the month having provided disappointing new unit sales number for 3Q21 which disappointed the market. The company did confirm full year earnings guidance which on balance is pleasing and supportive of our position.

During the month the position in CEN was substantially reduced.

(**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	\$129m
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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