

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

- 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 7.0%, 0.1% behind the index.
- Exchange traded fund flows continue to drive share price movements in Contact Energy and Meridian but reversed to selling and contributing to price falls.
- The sharp sell-off in NZ 10-year bonds weighed against our market – yields moved from 1.1% to 1.9% over the month.
- Earnings season in New Zealand was generally positive with EPS beats outweighing misses 5:1. Earnings season for the ASX was also positive.
- Overweight positions in Summerset and Infratil added value while overweights in Contact Energy and Fisher & Paykel Healthcare detracted value.
- Underweight positions in Fletcher Building, Westpac Bank and Port of Tauranga detracted value.

Performance

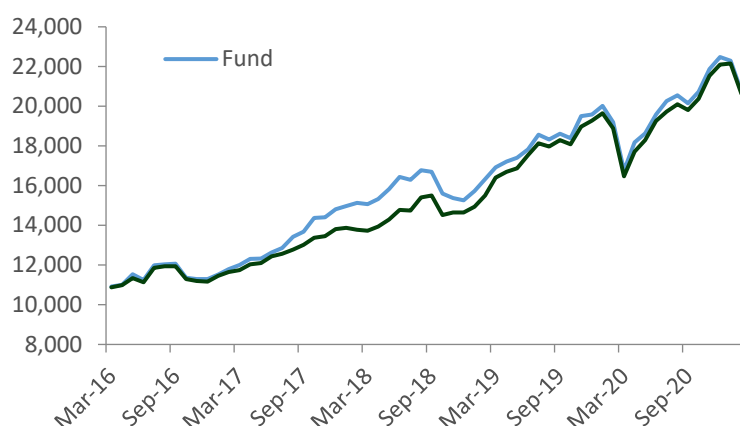
	One month	Three months	One year	Three years (p.a)	Five years (p.a)	Ten years (p.a)
Wholesale ¹	-6.94%	-5.14%	8.07%	11.10%	15.71%	15.37%
Benchmark ²	-6.85%	-4.18%	9.21%	14.43%	15.59%	15.09%
Retail ³	-7.03%	-5.35%	7.21%	9.98%	14.34%	13.95%
KiwiSaver ³	-7.04%	-5.73%	6.73%			

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 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.

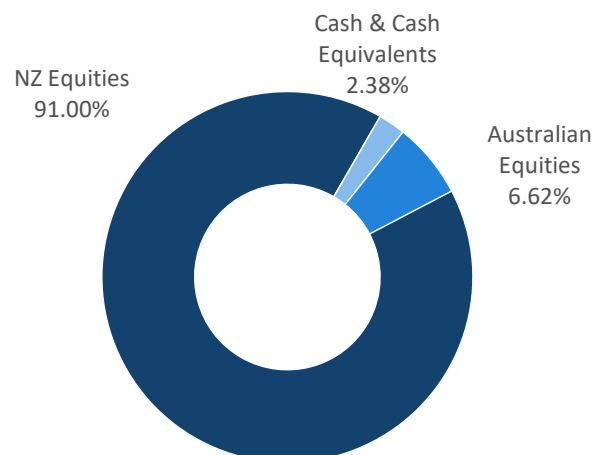
Overview

The 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:	
Summerset	OW	Contact Energy	OW
Infratil	OW	Fletcher Building	UW
Aust & NZ Banking	OW	Fisher & Paykel	OW
OW: overweight; UW: underweight; NH: no holding			
Top 10 Holdings			
Fisher & Paykel Healthcare	14.40%	A2 Milk	6.06%
Spark New Zealand Limited	9.67%	Summerset Group Holdings	5.80%
Auckland International	6.72%	Contact Energy	4.93%
Infratil Limited	6.19%	Meridian Energy	4.54%
Mainfreight Limited	6.14%	EBOS Limited	3.63%
Number of holdings			33

Sector Allocation	Fund	Benchmark
Health Care	26.05%	25.47%
Utilities	18.18%	19.63%
Industrials	12.86%	16.64%
Communication Services	12.66%	9.73%
Consumer Staples	6.35%	7.11%
Real Estate	4.92%	9.14%
Consumer Discretionary	4.90%	2.79%
Information Technology	4.05%	1.86%
Energy	3.36%	1.12%
Materials	2.92%	4.21%
Cash	2.38%	0.00%
Financials	1.37%	2.30%

Market Commentary

COVID-19, virus mutations and the vaccine rollout continue to be the focus of financial markets for the near future with a successful vaccine rollout crucial for quicker border openings and an economic recovery. Long bond yields moved higher over the month with the likes of the New Zealand 10-year government bonds trading above 2.0% intra-day before closing the month at 1.90%. The speed and magnitude of this move flowed through to investors reducing or in some cases undermining valuation support for equities, in particular yield stocks. February earnings updates were generally in line with our expectations for the fund's holdings that report results for the period ending 31 December.

Fund Commentary

The fund ended the month down 7.0% and 0.1% behind the index return. The largest positive contributors to relative return were overweight positions in **Summerset** (SUM) and **Infratil** (IFT). SUM reported strong full year reported profit up 32% and good momentum including an expected lift in the build rate for FY21. IFT continued to be well supported following their investor day and the announcement Jason Boyes will assume the role of CEO.

The largest negative contributors to relative return were overweight positions in **Contact Energy** (CEN) and **Fisher & Paykel Healthcare** (FPH). CEN fell 16% alongside the rest of the sector despite positive earnings announcements for CEN and other sector companies. The announcement on the index methodology changes for the clean energy ETF, effectively highlighting a down-weighting to both CEN and **Meridian Energy** (MEL), 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. The fund's underweight position in **Fletcher Building** (FBU) detracted from relative performance as the stock rallied 5.8% supported by a good half year result and generally positive growth signals in NZ and Australia. FBU also unexpectedly announced an interim dividend.

Key portfolio changes during the month included adding to positions in **Infratil** (ITF), **Chorus** (CNU), **SkyCity Entertainment** (SKC) and **Ryman Healthcare** (RYM). The fund reduced positions in CEN, **Mercury Energy** (MCY), MEL and **a2 Milk Company** (ATM) (**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

\$429.5m

Strategy Launch

October 2007

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

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