

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

- Global equity markets were mostly positive over the month. Inflation has become front of mind with central banks. The Reserve Bank of New Zealand has become one of the first to increase rates with the official cash rate doubled during the month to 50bps. Bonds yields also increased significantly over the month.
- The United States S&P 500 index rose 6.9%, the Japanese Nikkei 225 index fell 1.9%, the UK FTSE 100 index increased 2.1%, the Australian ASX 200 index declined 0.1% and the MSCI World index ended the month up 5.0%.
- The S&P/NZX 50 index ended the month down 1.3%.

Fund Highlights

- The fund ended down 1.3%, in-line with the index.
- The fund participated in the initial public offering of Vulcan Steel and the \$330m capital raising by Arvida.
- Overweight positions in Z Energy and Infratil and an underweight position in Ryman added value. Underweight positions Goodman Property and Skellerup and an overweight position in Summerset and Mainfreight detracted from value.

Performance

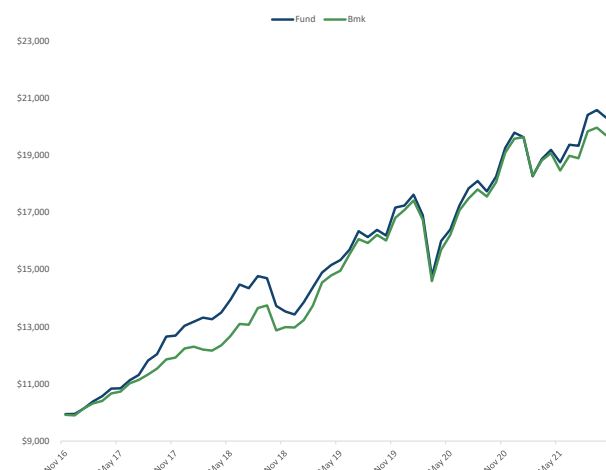
	One month	Three months	One year	Three years (p.a)	Five years (p.a)	Ten years (p.a)
Wholesale ¹	-1.27%	5.11%	11.30%	13.96%	15.23%	16.74%
Benchmark ²	-1.33%	4.26%	9.08%	15.23%	14.52%	15.93%
Retail ³	-1.34%	4.86%	10.33%	12.85%	13.95%	15.31%
KiwiSaver ³	-1.35%	4.85%	9.92%	13.07%		

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.

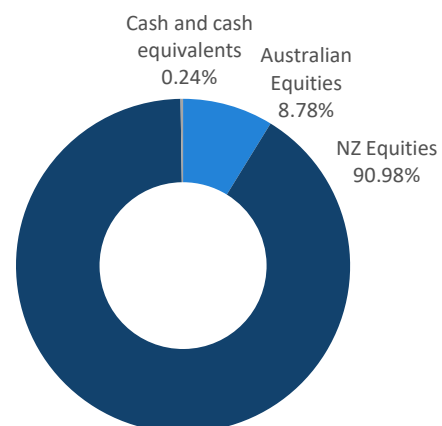
Overview

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:	
Z Energy Ltd	OW	Goodman Property	UW
Infratil Ltd	OW	Skellerup	UW
Ryman Healthcare Ltd	UW	Summerset	OW
OW: overweight; UW: underweight; NH: no holding			
Top 10 Holdings (as at month end)			
Fisher & Paykel Healthcare	13.60%	Auckland Int Airport Ltd	6.03%
Mainfreight Ltd	7.06%	Summerset Group	5.55%
Infratil Ltd	7.00%	Fletcher Building Ltd	5.37%
Spark NZ Ltd	6.71%	EBOS Group Ltd	4.60%
Contact Energy Ltd	6.45%	Meridian Energy Ltd	4.53%

Sector Allocation (month end position)	Fund	Benchmark
Health care	27.96%	26.67%
Utilities	20.38%	19.06%
Industrials	18.95%	22.67%
Communication services	10.07%	8.79%
Consumer discretionary	5.15%	2.98%
Information technology	4.36%	2.23%
Energy	4.03%	1.41%
Consumer staples	3.45%	5.05%
Real estate	3.18%	9.07%
Financials	2.22%	2.08%
Cash and cash equivalents	0.24%	0.00%
Number of holdings	35	50

Market Commentary

Global equity markets were mostly positive over the month. Inflation has become front of mind with central banks signalling the prospect of earlier than previously expected increases in official cash rates. The Reserve Bank of New Zealand has become one of the first to increase rates with the official cash rate doubled during the month to 50bps. Bond yields also increased significantly over the month with the New Zealand 10-year rising from 2.09% to end the month at 2.64% and the Australian 10-year ending October at 2.09% from 1.49% at the end of September. At this stage the yield movement hasn't materially been reflected in equity markets and we will continue to adjust portfolio positions to account for the move up in rates.

Fund Commentary

The fund ended the month down 1.3% and marginally ahead of the index return. The largest positive contributors to relative return were overweight positions in **Z Energy** (ZEL) and **Infratil** (IFT) and an underweight position in **Ryman Healthcare** (RYM). ZEL rose 5.3% on the back of their Board endorsing a revised bid from Ampol. IFT added 4.0% following announcing two investments, one in radiology and another in a United Kingdom based data centre business. RYM partly suffered as a funding stock for the ARV capital raising while investors also weighed up the impact from increasing mortgage rates and the introduction of loan to income limits by some banks on residential property prices. RYM ended the month down 4.3%.

The largest negative contributors to relative return were underweight positions Goodman Property (GMT) and Skellerup (SKL) and an overweight position in **Summerset** (SUM). GMT rose 2.7% as it continues to benefit from its recently announced portfolio revaluation. SKL rose 6.3% after announcing a strong start to its financial year at its Annual Shareholder Meeting while SUM fell 4.5% for the same reasons noted above for RYM. Mainfreight (MFT) fell back 7%, taking a breather following an excellent run of positive updates in the YTD.

Key portfolio changes during the month included adding **Vulcan Steel** (VSL) and **Arvida** (ARV) through their capital raisings to the portfolio. The fund also supported the **Aristocrat Leisure** (ALL) capital raising to fund ALL's Playtech acquisition in the UK. Positions in **Fletcher Building** (FBU) and **Pacific Edge** (PEB) were increased. Positions in ZEL, **Sydney Airport** (SYD) and **Sky City Entertainment** (SKC), Z were reduced.

(**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:	0.95%, refer PDS for more details
KiwiSaver fund:	Does not distribute	KiwiSaver:	0.95%, refer PDS for more details.
Hedging		Buy / Sell spread	Strategy size
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%	\$421.9m
			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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