

Factsheet 30 June 2022

# NIKKO AM CORE EQUITY STRATEGY

Assets are held in the Nikko AM Wholesale Core Equity Fund. The Nikko AM Core Equity Fund (retail) invests in units in the wholesale fund which the commentary refers to.

## Market Overview

- With the exception of China, global equity markets sold off aggressively over the quarter with inflation, increasing interest rates, labour shortages and the war in Ukraine all having an impact.
- The United States S&P 500 index fell 16.5%, the Japanese Nikkei 225 index lost 5.1%, the UK FTSE 100 index gave up 4.6%, the Australian ASX 200 index declined 11.9% and the MSCI World index ended the quarter down 12.7%.
- The S&P/NZX 50 index ended the quarter down 10.2%.

## Fund Highlights

- The fund ended the quarter down 9.7% which was 0.5% ahead of the index.
- A number of the fund's holdings reported results for the period ending March.
- Pushpay announced they have been approached by parties interested in acquiring the company. The Z Energy takeover settled during the month.
- Overweight positions Channel Infrastructure and Spark and an underweight position in Freightways and Air New Zealand added value. Overweight positions in EROAD and Fletcher Building and an underweight position in Port of Tauranga detracted from value.

## Performance

	One month	Three months	One year	Three years (p.a)	Five years (p.a)	Ten years (p.a)
Wholesale <sup>1</sup>	-3.60%	-9.66%	-10.89%	3.22%	9.17%	14.62%
Benchmark <sup>2</sup>	-3.82%	-10.15%	-13.50%	1.86%	8.30%	13.53%
Retail <sup>3</sup>	-3.69%	-9.87%	-11.67%	2.25%	8.03%	13.25%

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<sup>1, 2</sup>



## 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.



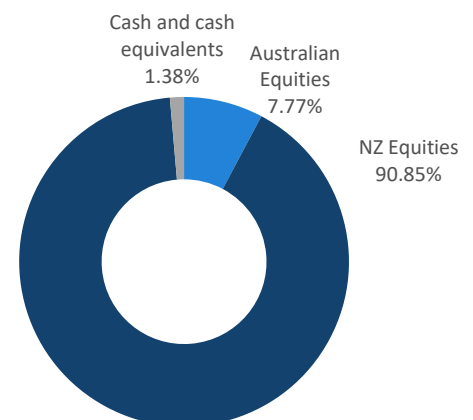
## Overview

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 (quarter)			
What Helped:		What Hurt:	
Freightways Ltd	NH	EROAD	OW
Channel Infrastructure Ltd	OW	Fletcher Building Ltd	OW
Air New Zealand Ltd	NH	Port of Tauranga	NH
OW: overweight; UW: underweight; NH: no holding			
Top 10 Holdings (% of fund)			
Fisher & Paykel Healthcare	10.07	Contact Energy Limited	6.62
Spark New Zealand Ltd	9.20	EBOS Group Limited	6.27
Infratil Limited	7.58	Fletcher Building Ltd	5.20
Auckland Int. Airport Ltd	6.85	Meridian Energy Ltd	4.09
Mainfreight Limited	6.84	Summerset Group Ltd	3.60

Sector Allocation (% of fund)	Fund	Benchmark
Health care	25.47%	23.56%
Utilities	20.73%	21.22%
Industrials	18.89%	22.07%
Communication services	13.74%	11.48%
Consumer discretionary	5.88%	3.32%
Consumer staples	3.75%	4.70%
Information technology	3.73%	1.88%
Real estate	3.60%	9.41%
Cash and cash equivalents	1.38%	0.00%
Energy	1.30%	0.00%
Materials	1.05%	0.00%
Financials	0.48%	2.36%
<b>Number of holdings</b>	<b>37</b>	<b>50</b>

## Market Commentary

Inflation continues to be front of mind with a number of Central Banks including the Reserve Banks of New Zealand and Australia, the Bank of England and the US Federal Reserve all increasing cash rates over the month. Large moves up were also seen in bond yields with key 10-year rates up more than 1% intra-quarter before ending the quarter up 60 – 80 basis points. This is flowing through to weak equity and bond markets with the tech-heavy Nasdaq a standout - down 22.4% over the quarter. Earnings results were mixed with tech stocks disappointing leading to Serko, EROAD and Pacific Edge falling 20.6%, 67.6% and 29.2% respectively. EROAD was also impacted by the sudden resignation of its CEO.

## Fund Commentary

The fund ended the quarter down 9.7% and 0.5% ahead of the index return. The largest overweight positions that contributed positively were **Channel Infrastructure** (CHI) and **Spark** (SPK) and while underweights (nil) positions in Freightways (FRE) and Air New Zealand (AIR) were also positive. At its annual shareholder meeting CHI confirmed they are tracking in line with expectations on the refinery terminal conversion costs and ended the quarter up 10.6%. SPK rose 4.8% as it benefits from its defensive earnings, high yield and potential to unlock value through the part sale of its cell tower assets. AIR continues to digest its recent capital raising and faces increasing costs from fuel prices and labour shortages. AIR ended the quarter down 27.9%.

The largest negative contributors to relative return were overweight positions in **EROAD** (ERD) and **Fletcher Building** (FBU) and an underweight (nil) position in Port of Tauranga (POT). ERD disappointed on a number of fronts and detracted value with the stock falling ~67% over the quarter. As noted previously, the market and the board were surprised by the resignation of the founder / CEO and major shareholder. The sudden announcement notwithstanding the company’s assurance that both trading and the integration of the Cortex acquisition are proceeding well continues to be viewed dimly. Despite providing a positive market update at its investor day, FBU fell 21.0% on negative sentiment around the housing market and building material shortages. POT rose 0.7% as it benefits from increasing its pricing and its relatively defensive earnings.

Key portfolio changes during the quarter included introducing **Allkem** (AKE) into the fund while divesting Westpac (WBC). Positions in **Ramsay Healthcare** (RHC), **Mainfreight** (MFT), **Auckland International Airport** (AIA), SKT, **Pushpay** (PPH), **Ryman Healthcare** (RYM), **Scales** (SCL) and **SkyCity Entertainment** (SKC) were added to. Reductions were made in **Contact Energy** (CEN), **Meridian Energy** (MEL), **Mercury Energy** (MCY), **Fisher & Paykel Healthcare** (FPH) and **Summerset** (SUM). (Bold denotes stocks held in the portfolio).

## Key Fund Facts

<b>Distributions</b>	<b>Estimated annual fund charges (incl. GST)</b>		
Wholesale fund: Calendar quarter.	Wholesale: Negotiated outside of fund		
Retail fund: March and September	Retail: 0.95%, refer PDS for more details		
<b>Foreign currency</b> 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.	<b>Buy/Sell spread</b>	<b>Strategy size</b>	<b>Strategy Launch</b>
	0.29% / 0.29%	\$338m	Oct 2007
<b>Exclusions:</b> Securities that conduct activities listed on the Schedule to Cluster Munitions Prohibition Act 2009. Tobacco manufacturers.			
<b>Restrictions:</b> Tobacco stocks, ‘controversial weapons’, fossil fuels. For more information, please refer to the Statement of Investment Policy and Objectives (SIPO) which can be found on our website <a href="https://www.nikkoam.co.nz/invest/retail">https://www.nikkoam.co.nz/invest/retail</a> .			

## Compliance

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

## Contact Us [www.nikkoam.co.nz](http://www.nikkoam.co.nz) | [nzenquiries@nikkoam.com](mailto:nzenquiries@nikkoam.com)

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