

NIKKO AM WHOLESALE NEW ZEALAND EQUITY FUND

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 9.2% which was 1.0% 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 Air New Zealand added value. Overweight positions in Sky Network Television 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 ¹	-3.65%	-9.17%	-9.73%	3.02%	-	-
Benchmark ²	-3.82%	-10.15%	-13.50%	1.86%	-	-

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.

Since Inception Cumulative Performance, \$10,000 invested^{1, 2}



Portfolio Manager

Michael Sherrock,
Portfolio Manager



Responsible for the Property and NZ Equities Fund. Covers the Property, Energy, Materials sectors. Nineteen years of experience within the finance industry including Schroders in the UK and ASB Group Investments in New Zealand. Michael holds a Bachelor of Commerce degree from the University of Auckland and is a CFA charter holder. Joined in 2006.

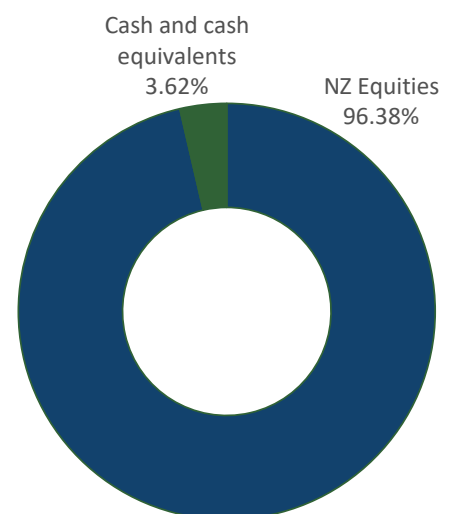
Overview

The New Zealand Equity Fund seeks to provide investors with an exposure to the New Zealand equity markets from an actively managed investment portfolio with potential for growth of income and capital.

Objective

The objective of the fund is to construct a portfolio of Authorised Investments that outperform the Fund's benchmark return by 3.00% p.a. over a rolling three-year period before fees and taxes.

Asset Allocation



Attribution to Performance (quarter)			
What Helped:		What Hurt:	
Channel Infrastructure Ltd	OW	Sky Network	OW
Spark NZ Ltd	OW	Port of Tauranga Ltd	NH
Air New Zealand Ltd	NH	Fletcher Building Ltd	OW

OW: overweight; UW: underweight; NH: no holding. Month-end position

Top 10 Holdings			
Spark New Zealand Ltd	10.34%	EBOS Ltd	6.27%
Fisher & Paykel Healthcare	10.00%	Mainfreight Ltd	5.91%
Infratil Limited	7.27%	Fletcher Building Ltd	5.00%
Auckland International Airport Ltd	6.87%	Meridian Energy Ltd	4.12%
Contact Energy Ltd	6.65%	Summerset Group Ltd	3.64%

Sector Allocation	Fund	Benchmark
Health care	24.12%	23.55%
Utilities	20.50%	21.22%
Industrials	19.79%	22.07%
Communication services	15.92%	11.48%
Consumer discretionary	3.81%	3.32%
Consumer staples	3.76%	4.70%
Cash and cash equivalents	3.62%	0.00%
Real estate	2.45%	9.41%
Information technology	2.41%	1.88%
Energy	1.93%	0.00%
Financials	0.89%	2.36%
Materials	0.80%	0.00%
Number of holdings	32	50

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 9.2% and 1.0% ahead of the index return. The largest positive contributors to relative return were overweight positions **Channel Infrastructure** (CHI) and **Spark** (SPK) and an underweight (nil) position in Air New Zealand (AIR). 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 **Sky Network Television** (SKT) and **Fletcher Building** (FBU) and an underweight (nil) position in Port of Tauranga (POT). After a strong run over recent quarters, SKT gave up 18.6%. SKT also came under pressure after announcing it was looking at buying the MediaWorks assets before pulling out following shareholder pushback. 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 also its relatively defensive earnings.

Key portfolio changes during the quarter included adding **Scales** (SCL) back into the fund while divesting Westpac (WBC). Positions in **Freightways** (FRE), **Mainfreight** (MFT), **Auckland International Airport** (AIA), SKT, **Pushpay** (PPH), **Ryman Healthcare** (RYM), **Investore** (IPL) 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

Distributions	Estimated annual fund charges		
Wholesale fund: Calendar quarter	Wholesale: Negotiated outside of fund. In-fund charges 0.012%pa		
Hedging	Buy / Sell spread	Strategy size	Strategy Launch
All investments will be in New Zealand dollars.	0.29% / 0.29%	\$110.8m	July 2018
Exclusions Securities that conduct activities listed on the Schedule to Cluster Munitions Prohibition Act 2009.			
Restrictions '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 https://www.nikkoam.co.nz/invest/retail .			

Compliance

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

Contact Us

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