

Factsheet 31 July 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 performed strongly on the back of falling bond yields.
- Over the month the US 10-year bond yield fell 35bps, the New Zealand 10-year yield fell 45bps while the Australian 10 year fell 60bps.
- The United States S&P 500 index rose 9.1%, the Japanese Nikkei 225 index rose 5.4%, the UK FTSE 100 index increased 3.5%, the Australian ASX 200 index gained 5.8% and the MSCI World index ended the month 7.1%.
- The S&P/NZX 50 index ended the month up 5.8%.

## Fund Highlights

- The fund ended the month up 5.7% which was 0.1% behind the index.
- Over August a number of companies are due to announce results for the period ending June.
- There were several investor days during the month with the likes of Fletcher Building and Channel Infrastructure providing positive updates.
- Vulcan Steel announced the acquisition of Ullrich Aluminium while Spark and Vodafone both announced the partial sale of their cell tower assets for attractive values.
- Overweight positions in Ingenia Communities, Mainfreight and Summerset added value. Overweight positions in Sky City Entertainment and Restaurant Brands 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>	5.67%	-2.79%	-5.65%	3.72%	10.02%	14.73%
Benchmark <sup>2</sup>	5.77%	-3.17%	-8.08%	2.63%	9.28%	13.69%
Retail <sup>3</sup>	5.59%	-3.01%	-6.48%	2.83%	8.88%	13.36%

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.

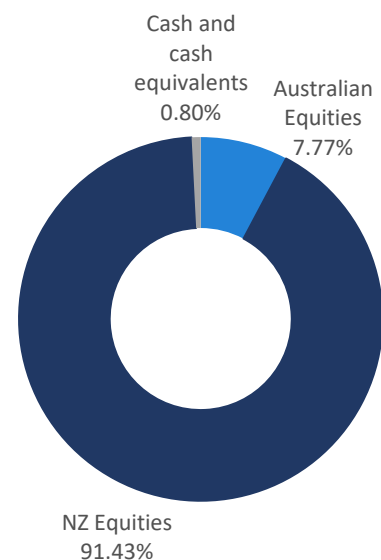
## Overview

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 (month)			
What Helped:		What Hurt:	
Ingenia Communities	OW	Port of Tauranga	NH
Mainfreight Ltd	OW	Restaurant Brands Ltd	OW
Summerset Group Ltd	OW	SkyCity Entertainment	OW
OW: overweight; UW: underweight; NH: no holding			
Top 10 Holdings (% of fund)			
Fisher & Paykel Healthcare	9.91	Contact Energy Limited	6.73
Spark New Zealand Ltd	9.27	EBOS Group Limited	6.12
Infratil Limited	7.79	Fletcher Building Ltd	5.14
Mainfreight Limited	7.28	Meridian Energy Ltd	4.20
Auckland Int. Airport Ltd	6.88	Summerset Group Ltd	3.64

Sector Allocation (% of fund)	Fund	Benchmark
Health care	25.07%	23.38%
Utilities	21.24%	21.50%
Industrials	19.30%	22.27%
Communication services	13.94%	11.64%
Consumer discretionary	5.39%	3.00%
Information technology	4.17%	1.88%
Real estate	3.58%	9.42%
Consumer Staples	3.48%	4.49%
Materials	1.31%	0.00%
Energy	1.20%	0.00%
Cash and cash equivalents	0.80%	0.00%
Financials	0.52%	2.42%
<b>Number of holdings</b>	<b>36</b>	<b>50</b>

## Market Commentary

With the exception of China, global equity markets performed strongly on the back of falling bond yields. Central banks around the world continue to raise cash rates as they battle the highest inflation rates in decades. These rate increases and outlook for more is flowing through to concerns around economic growth with the United States now in a technical recession after reporting its second quarter of negative growth. These growth concerns have resulted in bond yields falling with the likes of the United States, New Zealand and Australia seeing their 10-year bond yields fall between 35 and 60 basis points over the month. Lower bond yields have been supportive of equity markets.

## Fund Commentary

The fund ended the month up 5.7% and 0.1% behind the index return. The largest positive contributors to relative return were overweight positions in **Ingenia Communities** (INA), **Mainfreight** (MFT) and **Summerset** (SUM). Following a number of negative months, INA rose 16.6% (in AUD) as they confirmed they would meet earnings guidance and announced a strong sales pipeline. MFT jumped 12.1% with their Annual Shareholder Meeting including a trading update for the first 16 weeks of FY23. This revealed that all three operating divisions grew strongly on the same period last year, in terms of revenue and profit. SUM rose 11.5% following announcing a positive sales period for the June quarter.

The largest negative contributors to relative return were overweight positions in **Sky City Entertainment** (SKC) and **Restaurant Brands** (RBD) and an underweight (nil) position in Port of Tauranga. SKC fell 4.8% after announcing that the South Australian gaming regulator would be undertaking an independent review of its Adelaide casino to ensure SKC was still suitable to hold the casino licence. RBD lost 11.1% after providing their 2Q trading update. Despite challenging conditions, the company delivered robust sales revenue growth of 10.2% for the second quarter and 8.2% for the first half of FY23. However, profit guidance for the half year disappointed, with a contraction expected versus last year due to significant cost inflation pressuring margins. Management believe they have levers to address but will take some time to manifest. POT rose 12.2% benefiting from increasing its pricing, that should more than offset cost inflation and its relatively defensive earnings.

Key portfolio changes during the month included adding to positions in **Serko** (SKO) **Allkem** (AKO), SKC and **ANZ Bank** (ANZ) through its capital raising while positions in **A2 Milk** (ATM), **Channel Infrastructure** (CHI), INA, **Waypoint REIT** (WPR), **Fisher & Paykel Healthcare** (FPH), **Pushpay** (PPH), **Spark** (SPK) and SUM were reduced. (**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> 0.29% / 0.29%
<b>Exclusions:</b> Securities that conduct activities listed on the Schedule to Cluster Munitions Prohibition Act 2009. Tobacco manufacturers.	<b>Strategy size</b> \$350m
<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> .	<b>Strategy Launch</b> Oct 2007

## Compliance

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

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