

Factsheet 30 September 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

- Global equity markets sold off over the quarter driven by earnings season, continued inflation concerns and bond yield movements.
- Over the quarter the US 10-year bond yield rose 82bps, the New Zealand 10-year yield increased 44bps, the Australian 10-year added 23bps while the UK 10-year jumped 186bps.
- The United States S&P 500 index fell 5.3%, the Japanese Nikkei 225 index declined 1.7%, the UK FTSE 100 index lost 3.8%, the Australian ASX 200 index rose 0.4% and the MSCI World index ended the quarter down 4.9%.
- The S&P/NZX 50 index ended the quarter up 2.2%.

Fund Highlights

- The fund ended the quarter up 2.04%, marginally behind the index return.
- A number of companies reported results for the period ended June.
- There were several investor days during the quarter 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 Infratil, Summerset and Channel Infrastructure added value.
- Overweight positions in Ramsay Health Care, Restaurant Brands and NextDC and an underweight position in Air New Zealand detracted from value.

Performance

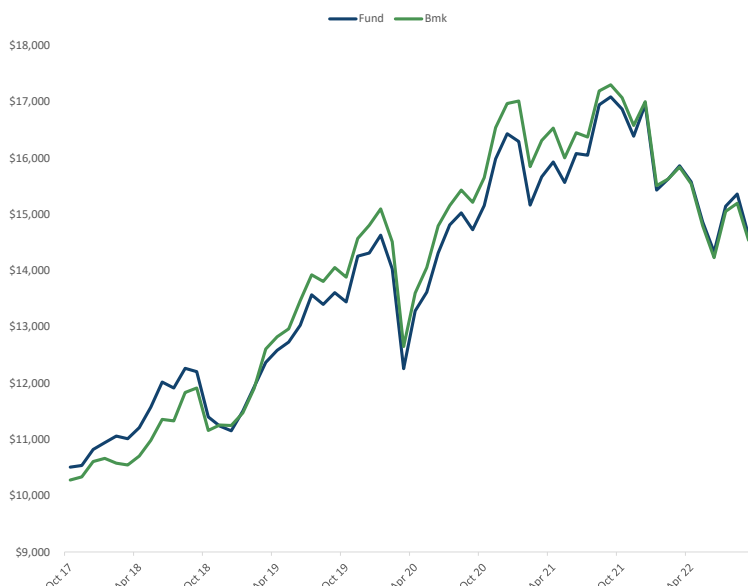
	One month	Three months	One year	Three years (p.a)	Five years (p.a)	Ten years (p.a)
Wholesale ¹	-4.81%	2.04%	-14.42%	2.43%	7.90%	13.46%
Benchmark ²	-4.32%	2.17%	-15.97%	1.14%	7.77%	12.35%
Retail ³	-4.87%	1.80%	-15.17%	1.55%	6.80%	12.11%

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.

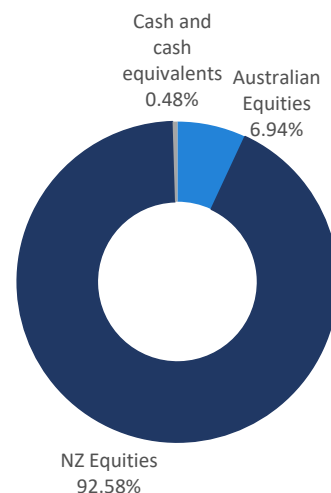
Overview

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 (quarter)			
What Helped:		What Hurt:	
Infratil Ltd	OW	Ramsay Healthcare Ltd	OW
Channel Infrastructure Ltd	OW	Restaurant Brands NZ Ltd	OW
Summerset Ltd	OW	NEXTDC Ltd	OW
OW: overweight; UW: underweight; NH: no holding			
Top 10 Holdings (% of fund)			
Spark New Zealand Ltd	10.24	Mainfreight Limited	6.57
Infratil Limited	8.86	EBOS Group Limited	6.36
Fisher & Paykel Healthcare	8.21	Fletcher Building Ltd	4.88
Auckland Int. Airport Ltd	7.11	Meridian Energy Ltd	4.25
Contact Energy Limited	7.04	The A2 Milk Company Ltd	3.83

Sector Allocation (% of fund)	Fund	Benchmark
Health care	23.34%	22.41%
Utilities	22.69%	22.09%
Industrials	18.56%	22.03%
Communication services	14.95%	11.84%
Consumer discretionary	5.01%	3.06%
Consumer Staples	4.72%	5.49%
Information technology	3.97%	1.67%
Real estate	3.33%	9.10%
Materials	1.49%	0.00%
Energy	1.46%	0.00%
Cash and cash equivalents	0.48%	0.00%
Financials	0.00	2.31%
Number of holdings	36	50

Market Commentary

Global equity markets sold off over the quarter driven by earnings season, continued inflation concerns and bond yield movements. While company earnings results were generally as expected, labour availability, increasing wages and rising interest rates are the key issues that companies are having to manage. Central banks continue their battle against inflation with aggressive cash rate hikes. Both the Reserve Bank of Australia and the US Federal Reserve increased cash rates by 150 basis points while the Reserve Bank of New Zealand and the Bank of England increased their official cash rates by 100 basis points. Bond yields continue to be volatile with 10-year government bond yields for New Zealand, Australia, the United Kingdom and the United States up 44bps, 23bps, 186bps and 82bps respectively.

Fund Commentary

The largest positive contributors to relative return were overweight positions in **Infratil** (IFT), **Summerset** (SUM) and **Channel** Infrastructure (CHI). IFT benefited from Vodafone (of which IFT owns 50%) announcing the partial sale of its cell tower assets at an attractive valuation along with a new investor buying into its Longroad Energy business at a very attractive price which flows through to an increased value for IFT's Longroad Energy holding. IFT rose 12.6% over the quarter. CHI continues to gain investor support post its transition to an import terminal and rose 11.6%. SUM rose 13.4% on the back of a good earnings result. The largest negative contributors to relative return were overweight positions in **Ramsay** Health Care (RHC), **Restaurant Brands** (RBD) and **NextDC** (NXT) plus an underweight position in Air New Zealand (AIR). RHC fell 19% - this followed the conclusion of takeover negotiations with the KKR lead private equity consortium. After complications with RHC's French asset, the consortium could not provide an appropriately priced alternative takeover offer having walked back their original \$88 per share. RBD decreased by 29%. The company continued to generate sales revenue growth however a combination of factors caused significant cost pressure to build and subsequently dent near-term earnings prospects. In addition, the well-regarded CEO and CFO have announced their respective retirements from the business after a long and successful partnership. NXT decreased by 17.1%. The company delivered their earnings result which was broadly in line with expectations - growing profit by 26%. However, some concern emerged from greater supply chain challenges, with lead times extending considerably. This may prove to be a drag on pipeline conversion. Furthermore, long-term growth stocks have struggled against rapidly rising interest rates. Key portfolio changes during the quarter included introducing Allkem Limited (AKE), a lithium miner and exiting our residual holding in ANZ Bank. Otherwise, there were modest changes including adding to positions in **Serko** (SKO), **EBOS** (EBO), **A2 Milk** (ATM), **Infratil** (IFT), **Spark** (SPK) and **Pushpay** Holdings (PPH). We reduced positions in **Fisher & Paykel Healthcare** (FPH), **Restaurant Brands** (RBD) and **Summerset** (SUM). (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
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 \$334m
	Strategy Launch Oct 2007
Exclusions: Securities that conduct activities listed on the Schedule to Cluster Munitions Prohibition Act 2009. Tobacco manufacturers.	
Restrictions: 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 https://www.nikkoam.co.nz/invest/retail .	

Compliance

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

Contact Us

www.nikkoam.co.nz | nzenquiries@nikkoam.com

This document is issued by Nikko Asset Management New Zealand Limited (Company No. 606057, FSP No. FSP22562), the investment manager of the Nikko AM NZ Investment Scheme, the Nikko AM NZ Wholesale Investment Scheme and the Nikko AM KiwiSaver Scheme. This material has been prepared without taking into account a potential investor's objectives, financial situation or needs and is not intended to constitute personal financial advice and must not be relied on as such. Recipients of this document, who are not wholesale investors (in accordance with Schedule 1, Clause 3 Financial Markets Conduct Act 2013), or their duly appointed agent, should consult a Financial Advice Provider and the relevant Product Disclosure Statement. Past performance is not a guarantee of future performance. While we believe the information contained in this presentation is correct at the date of presentation, no warranty of accuracy or reliability is given, and no responsibility is accepted for errors or omissions including where provided by a third party. For full details on the fund, please refer to our Product Disclosure Statement on nikkoam.co.nz.