

# Nikko AM Concentrated Equity Strategy

Monthly Update 31 December 2023

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

## Market Overview

- Global equity markets were weak in October before staging a strong recovery over November and December as bond yields fell sharply.
- The United States S&P 500 index rose 11.2%, the Japanese Nikkei 225 added 5.0%, the UK FTSE 100 index gained 1.7%, the Australian ASX 200 index increased 8.4% and the MSCI World index ended the quarter up 9.4% (in local terms).
- The S&P/NZX 50 index ended the quarter up 4.3%.

## Fund Highlights

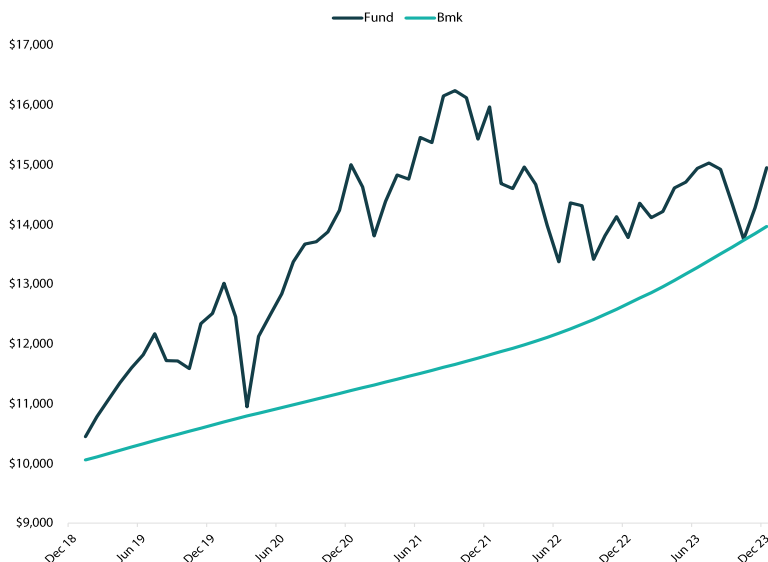
- The fund ended the quarter up 4.2%.
- There were a number of company results announcements and Annual Shareholder Meetings during the quarter.
- Allkem's merger with Livent was approved and is now trading under the name Arcadium Lithium.
- The fund's positions in NextDC, Fisher & Paykel Healthcare and Spark added value while positions in Allkem, Sky City Entertainment and Infratil detracted from value.

## Performance

	One month	Three months	One year	Three years (p.a.)	Five years (p.a.)	Ten years (p.a.)
<b>Wholesale<sup>1</sup></b>	4.70%	4.20%	8.49%	-0.11%	8.37%	11.70%
<b>Benchmark<sup>2</sup></b>	0.85%	2.55%	10.20%	7.57%	6.90%	7.15%
<b>Retail<sup>3</sup></b>	4.56%	3.87%	7.31%	-1.25%	6.88%	9.64%
<b>S&amp;P/NZX50<sup>4</sup></b>	3.96%	4.30%	3.51%	-2.72%	6.79%	10.64%

- Returns are before tax and before the deduction of fees.
- Benchmark: RBNZ Official Cash Rate plus 5% per annum. No tax or fees.
- Returns are before tax and after the deduction of fees and expenses and including tax credits (if any).
- S&P / NZX 50 Index Gross (with Imputation Credits). No tax or fees.

## Five-Year Cumulative Performance, \$10,000 invested<sup>1,2</sup>



## Portfolio Manager

**Michael Sherrock,  
Head of Equities**



Michael joined Nikko AM in 2006 and covers the Property, Energy, Materials, Metals and Mining and Media sectors. He has over 20 years' experience and previously held roles with Schroders UK and ASB Group Investments. Michael is a CFA charter-holder and holds a Bachelor of Commerce degree from the University of Auckland.

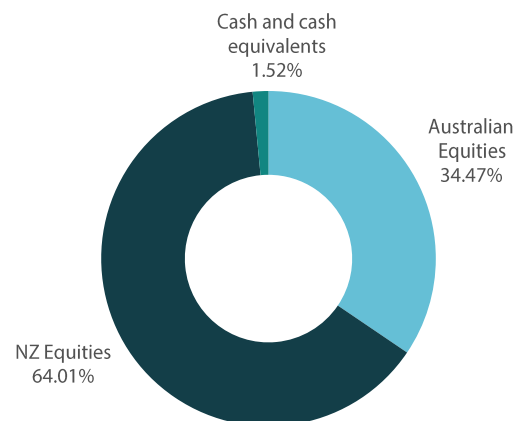
## Overview

The Concentrated Equity Fund is a collection of the portfolio manager's highest conviction investment ideas to achieve capital appreciation. The typical number of stocks in the portfolio is circa 15.

## Objective

The fund aims to outperform the benchmark return before fees, expenses and taxes over a rolling three-year period.

## Asset Allocation



Contribution To Performance*		Top 10 Holdings (% of fund)			
<b>What Helped:</b>	<b>What Hurt:</b>	Contact Energy	12.51	Summerset	7.61
Fisher & Paykel Healthcare	Allkem	Infratil	12.42	Aristocrat	6.38
Spark	Infratil	Spark New Zealand	11.07	Mainfreight	5.80
NextDC	Sky City Entertainment	NextDC	10.48	Ingenia Communities	5.31
		Fisher & Paykel Healthcare	9.74	Waypoint REIT	4.90
				<b>Number of holdings</b>	<b>14</b>

\*Absolute contribution – not relative to S&P/NZX50 Index

## Market Commentary

Global equity markets dropped in October as economic data and the Gaza conflict led to a flight to quality and safety which drove bond yields higher. November and December saw markets rebound strongly as bond yields fell on signs that rate hikes might be over in the United States and the Federal Reserve indicated a number of rate cuts in 2024. Interest rate moves and expectations continue to dominate the equity market rather than earnings results and the outlook for earnings. The quarter also saw the New Zealand election which after a number of weeks of waiting for the final result and then several weeks of negotiation saw a right leaning coalition form government. The year finished strong across major markets, posting 12 month returns of: Nasdaq up 43.4%, S&P 500 up 24.2%, Nikkei 225 up 28.2% and the S&P / ASX 200 up 12.4%. The New Zealand market was among the weaker, only up 3.5%.

## Fund Commentary

The largest positive contributors were positions in **Fisher & Paykel Healthcare (FPH)**, **Spark (SPK)** and **NextDC (NXT)**. FPH's result was a touch better than expected by the market and full year guidance also gave comfort that earnings were not going to disappoint for the full year result. FPH ended the quarter up 10.5%. At its annual shareholder meeting SPK reaffirmed its earnings guidance and rose 7.7% over the quarter. NXT gained on the back of lower bond yields and the continued focus from investors in data storage and artificial intelligence beneficiaries. NXT rose 10.8% (in AUD).

The largest negative contributors to the fund's return were from positions in **Allkem (AKE)**, **Infratil (IFT)** and **Sky City Entertainment (SKC)**. The merger of AKE and Livent was approved which saw AKE cease trading late in December and start trading under its new name, Arcadium Lithium. AKE fell in October and November on weak lithium markets before recovering in December as markets steadied and the merger was approved. AKE ended the quarter down 4.7%. IFT delivered their first half FY24 result, demonstrating robust operating performance across their portfolio companies and lifted their mid-point EBITDA guidance for FY24. The updated Longroad independent valuation did not lift as meaningfully as some expected due to an increase in discount rates. IFT fell 0.9% over the quarter. SKC fell 5.7% after announcing a reduction in its earnings guidance.

Portfolio changes over the quarter included adding to its positions in **Summerset (SUM)**, **Mainfreight (MFT)** and **Contact Energy (CEN)** while reducing positions in **A2 Milk (ATM)**, **FPH**, **Aristocrat Leisure (ALL)**, **IFT** and **SPK**.

(**Bold** denotes stocks held in the portfolio).

## Key Fund Facts

<b>Estimated annual fund charges (incl. GST)</b>	<b>Hedging:</b>	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.	<b>Strategy Launch:</b>	August 2006
<b>Wholesale:</b> Negotiated outside of the unit price. 1.15%. refer PDS for more details.	<b>Exclusions:</b>	Controversial weapons (including by not limited to cluster munitions and chemical, biological and nuclear weapons).	<b>Strategy size:</b>	\$63m
<b>Retail:</b>	<b>Restrictions:</b>	Tobacco stocks, fossil fuels. For more information, please refer to the Statement of Investment Policy and Objectives (SIPO) on our website <a href="https://www.nikkoam.co.nz/invest/retail">https://www.nikkoam.co.nz/invest/retail</a> .	<b>Buy / Sell spread:</b>	0.29%/0.29%
<b>Distributions:</b>				
<b>Wholesale:</b> Calendar quarter				
<b>Retail:</b> March and September				

## Compliance

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

## Contact Us

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