

# Nikko AM Core Equity Strategy

Monthly Update 30 June 2024

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 had mixed performance over the quarter with the timing of rate cuts being pushed out and bond yields moving higher negatively impacting markets, offset by earnings results.
- The United States S&P 500 index rose 3.9%, the Japanese Nikkei 225 fell 2.0%, the UK FTSE 100 index increased 2.7%, the Australian ASX 200 index declined 1.1% and the MSCI World index ended the quarter up 3.4% (in local terms).
- The S&P/NZX 50 index ended the quarter down 3.1%.

## Fund Highlights

- The fund ended the quarter down 2.6%, 0.5% ahead of the index return.
- Earnings guidance updates and company results for the period ended 31 March dominated news flow and share price performance.
- NextDC completed an AU\$1.3b capital raising to fund further data centre developments while Heartland Bank completed a \$210m raising to buy Challenger Bank in Australia and Infratil raised \$1.15b to fund its data centre development pipeline.
- A deal to keep the Tiwai Point Aluminium smelter open for another 20 years was agreed which provided a boost to Mercury, Meridian Energy and Contact Energy who will supply electricity to the smelter.
- Underweight positions in Tourism Holding and Fletcher Building and an overweight position in Infratil added value. Overweight positions in Sky Network Television, Summerset and Ryman Healthcare 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>	-0.90%	-2.57%	0.43%	0.25%	4.46%	11.00%
<b>Benchmark<sup>2</sup></b>	-1.19%	-3.13%	-0.83%	-1.74%	2.99%	9.66%
<b>Retail<sup>3</sup></b>	-1.00%	-2.80%	-0.54%	-0.68%	3.47%	9.77%

- Returns are before tax and before the deduction of fees and including tax credits (if any).
- Benchmark: S&P / NZX 50 Index Gross (with Imputation Credits). No tax or fees.
- 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

**Michael Sherrock,  
Head of Equities**



Michael joined Nikko AM in 2006 and covers the 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.

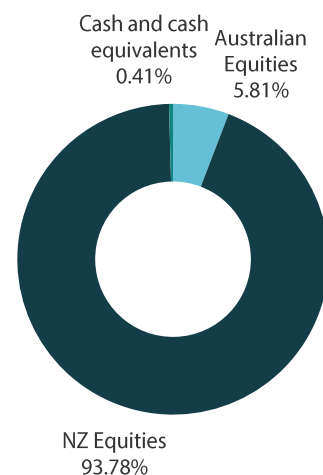
## Overview

The 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			
What Helped:		What Hurt:	
Infratil	OW	Ryman Healthcare Ltd	OW
Tourism Holdings	NH	Summerset	OW
Fletcher Building	UW	Sky Network Television	OW

OW: overweight; UW: underweight; NH: no holdings

Top 10 Holdings (% of fund)			
Fisher & Paykel Healthcare	14.05	Meridian Energy	6.21
Infratil	12.14	EBOS	4.87
Auckland International Airport	9.26	The A2 Milk	4.53
Contact Energy	8.28	Mainfreight	4.46
Spark New Zealand	8.18	Mercury NZ	3.58

Sector Allocation (% of fund)	Fund	Benchmark
Industrials	28.07%	27.74%
Health care	26.77%	24.28%
Utilities	18.07%	18.80%
Communication services	12.80%	9.68%
Consumer staples	4.53%	5.44%
Consumer discretionary	2.74%	1.71%
Real estate	2.10%	7.78%
Information technology	1.96%	1.57%
Energy	1.34%	0.32%
Materials	0.70%	0.39%
Financials	0.52%	2.29%
Cash and cash equivalents	0.41%	0.00%
<b>Number of holdings</b>	<b>29</b>	<b>50</b>

## Market Commentary

While there was mixed economic data, sticky inflation continues to impact on markets with the likely timing of interest rate cuts by the US Federal Reserve pushed out. There is also a risk that the Reserve Bank of Australia raises rates as Australian CPI continues to print higher than expectations. This led to 10-year bond yields rising over the quarter with the US 10-year rate rising from 4.2% to 4.4%, the Australian 10-year rate rising from 3.96% to 4.31% and the New Zealand 10-year rate rising from 4.54% to 4.67%. The pushing out of the timing of rate cuts and the increase in bond yields had a negative impact on equity markets but in certain markets this was offset by good earnings results. The tech heavy Nasdaq index was a strong performer, up 8.3% as the likes of Nvidia, Apple, Alphabet, Tesla, Amazon and Microsoft continued to push higher on good results, up 36.7%, 23.0%, 20.8%, 12.6%, 7.1% and 6.4% respectively over the quarter. Geo-political tensions also weighed on markets with conflict in the Middle East continuing and the risk that it escalates across the region.

## Fund Commentary

The largest positive contributors to the fund's relative return were underweight positions in Tourism Holding (THL) (nil holding) and **Fletcher Building** (FBU) and an overweight position in **Infratil** (IFT). THL fell 43.7% after downgrading earnings guidance by more than 30% due to weak vehicle sales volumes and margins. FBU continues to disappoint the market, announcing an earnings guidance downgrade as trading conditions continue to weaken. FBU ended the quarter down 31.1%. IFT performed well post its \$1.15b capital raising to fund its data centre development pipeline and ended the quarter up 4.2%.

The largest negative contributors to relative return were from overweight positions in **Sky Network Television** (SKT), **Summerset** (SUM) and **Ryman Healthcare** (RYM). As a number of consumer discretionary stocks downgraded, SKT was impacted by negative sentiment and ended the quarter down 17.0%. Following an earnings downgrade earlier in the year, during the quarter RYM's Chief Executive Officer unexpectedly resigned. While RYM delivered a result within its previously downgraded guidance some of the revelations on previous accounting disappointed the market. In addition, more than 35 million RYM shares worth ~NZ\$130 million was traded, weighing on all the retirement sector stocks with some selling of these likely occurring to fund the RYM purchases. As a result, both RYM and SUM fell 21.8% and 16.7% respectively.

Key portfolio changes during the quarter included adding to our position in **NextDC** (NXT) and **IFT** through their capital raisings and **EBOS** (EBO) as it was sold down due to its removal from a MSCI index. We also added to our positions in **Mercury** (MCY) and **Auckland International Airport** (AIA). Positions in **A2 Milk** (ATM), SKT, **Aristocrat Leisure** (ALL), **Fisher & Paykel Healthcare** (FPH) and **Fletcher Building** (FBU) were reduced. New holdings were established in **Heartland Group** (HGH), **Resmed** (RMD) and **Worley** (WOR) while positions in Radius Residential Care (RAD), Precinct Properties and Ramsay Health Care (RHC) were divested. (**Bold** denotes stocks held in the portfolio).

## Key Fund Facts

<b>Estimated annual fund charges (incl. GST)</b>		<b>Exclusions:</b>	Controversial weapons (including but not limited to cluster munitions and chemical, biological and nuclear weapons).	<b>Strategy Launch:</b>	October 2007
<b>Wholesale:</b>	Negotiated outside of the unit price.	<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>Strategy size:</b>	\$257.4m
<b>Retail:</b>	0.95%, refer to PDS for more details.			<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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