

# Nikko AM Core Equity Strategy

Monthly Update 31 December 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 a mixed performance over the quarter as earnings results, the US election result and central banks cutting rates impacted on returns.
- The United States S&P 500 index rose 2.1%, the Japanese Nikkei 225 gained 5.2%, the UK FTSE 100 index declined 0.8%, the Australian ASX 200 index lost 0.8% and the MSCI World index ended the quarter up 1.3% (in local terms).
- The S&P/NZX 50 index ended the quarter up 5.6%.

## Fund Highlights

- The fund ended the quarter up 6.1%, 0.5% ahead of the index return.
- A number of companies released earnings results for the period ending 30 September during the month.
- Arcadium Lithium received a takeover bid from Rio Tinto at a price around 100% above where it was trading.
- Both Freightways and Scales had large shareholders sell their positions that were approximately \$110m and \$80m in value.
- Auckland City Council sold its remaining shares in Auckland International Airport valued at approximately \$1.3b.
- Channel Infrastructure raised \$50m to fund infrastructure investments supporting new customer contracts.
- Spark was removed from the MSCI standard index while Infratil was added to the index.
- Overweight positions in Arcadium Lithium and Contact Energy and an underweight position in Precinct Properties added value. Overweight positions in NextDC, Worley and Ingenia Communities 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>	0.92%	6.07%	13.49%	2.34%	4.89%	11.05%
<b>Benchmark<sup>2</sup></b>	0.40%	5.62%	12.24%	1.03%	3.44%	9.98%
<b>Retail<sup>3</sup></b>	0.83%	5.81%	12.34%	1.38%	3.94%	9.84%

1. Returns are before tax and before the deduction of fees and including tax credits (if any).
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

**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 charterholder and holds a Bachelor of Commerce degree from the University of Auckland.

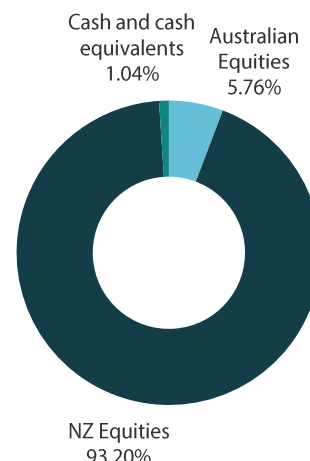
## Overview

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			
<b>What Helped:</b>		<b>What Hurt:</b>	
Arcadium Lithium	OW	NextDC	OW
Contact Energy	OW	Worley	OW
Precinct Properties	NH	Ingenia Communities	OW

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

Top 10 Holdings (% of fund)			
Fisher & Paykel Healthcare	16.25	Spark New Zealand	5.39
Infratil	10.70	Mainfreight	4.66
Auckland International Airport	10.43	Summerset	4.46
Contact Energy	7.80	EBOS	3.90
Meridian Energy	5.90	A2 Milk	3.72

Sector Allocation (% of fund)	Fund	Benchmark
Health care	28.91	26.26
Industrials	19.32	22.71
Utilities	15.96	16.29
Financials	11.16	11.71
Communication services	9.44	7.24
Consumer staples	4.56	4.46
Real estate	3.49	7.01
Consumer discretionary	2.57	1.72
Information technology	1.77	1.72
Energy	1.31	0.50
Cash and cash equivalents	1.04	0.00
Materials	0.46	0.38
<b>Number of holdings</b>	<b>33</b>	<b>50</b>

## Market Commentary

Global equity markets had a mixed performance over the quarter as earnings results, the US election result and central banks cutting rates impacted on returns. After a long build up the United States election arrived, and Donald Trump was elected President. Markets started to focus on potential policy changes that would impact immigration, healthcare, climate change / renewable energy / fossil fuels and tariffs. Earnings results were also a focus of markets over the quarter.

Looking back over the year all key markets posted strong returns with the US and Japanese markets the stand outs. The S&P 500 index rose 23.3% while the Nikkei 225 index rose 19.2% which follows on from their 2023 returns of 24.2% and 28.2% respectively. With inflation under control in most countries a key driver for markets over the year was the commencement of central banks cutting rates. This continued in the final quarter of the year with the Reserve Bank of New Zealand cutting the Official Cash Rate by 100bps. Another noteworthy move was the strength of the USD which saw the NZD depreciate 12.2% versus it over the quarter.

## Fund Commentary

The largest positive contributors to the fund's relative return were overweight positions in **Arcadium Lithium** (LTM) and **Contact Energy** (CEN) and an underweight (nil) position in Precinct Properties (PCT). During the quarter LTM received a takeover bid from Rio Tinto at US\$5.85 per share which the LTM board endorsed and was approved by shareholders. On the back of this, LTM rose 93.4% (in AUD) over the quarter. After a relatively weak September quarter, CEN bounced back in the December quarter, aided by speculation that it may be added to the MSCI World Standard index in early 2025. CEN was up 16.3% over the period. PCT, not held in the portfolio, fell 5.0%, not helped by a particularly weak last day of the year on no specific news.

The largest negative contributors to relative return were from overweight positions in **NextDC** (NXT), **Worley** (WOR) and **Ingenia Communities** (INA). Given the relatively weak Australian market over the quarter, Australian held stocks were generally a drag to fund performance. NXT fell 13.9% (in AUD) as it continues to digest its \$550m capital raise from September while WOR gave up 7.6% (in AUD) on no specific news. Despite reaffirming guidance, INA was a casualty of the weak Australian market with the real estate sector particularly weak. INA ended the quarter down 9.0% (in AUD). Key portfolio changes during the quarter included adding to our positions in **Kiwi Property** (KPG), **Ryman Healthcare** (RYM), **Spark** (SPK), **Stride Property** (SPG), **Fletcher Building** (FBU), **Meridian Energy** (MEL), **Auckland International Airport** (AIA) and **Worley** (WOR). The fund also added to its position in **Channel Infrastructure** (CHI) through its \$50m capital raise. New positions were established in **Scales** (SCL) and **Freightways** (FRW) by way of the shareholder sell-downs. Positions in LTM, **A2 Milk** (ATM), **Ebos** (EBO), **Aristocrat Leisure** (ALL), **Chorus** (CNU), **Mercury** (MCY), **Ingenia Communities** (INA), CEN, and **ResMed** (RMD) were reduced. (**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).  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 Launch:</b> October 2007
<b>Wholesale:</b>	Negotiated outside of the unit price.		<b>Strategy size:</b> \$286.3m
<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

[www.nikkoam.co.nz](http://www.nikkoam.co.nz) | [nzenquiries@nikkoam.com](mailto:nzenquiries@nikkoam.com)

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