

NIKKO AM CONCENTRATED EQUITY STRATEGY

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 mixed over the quarter with the prospect of interest rate increases in 2022, Chinese regulation of industries and companies and the potential collapse of the Evergrande Group weighing on markets. On the positive side, the rollout of COVID-19 vaccines allowed more freedom in a number of countries
- The United States S&P 500 index rose 0.2%, the Japanese Nikkei 225 index gained 2.3%, the UK FTSE 100 index increased 0.7%, the Australian ASX 200 index added 1.7% and the MSCI World index ended the month down 0.4%.
- The S&P/NZX 50 index had a strong quarter rising 5.2%.

Fund Highlights

- The fund ended the quarter up 5.1%.
- A number of the fund's holdings reported earnings results for the period ending June with results generally inline or better than expected.
- Sydney Airport was a standout performer for the quarter.
- Fund positions in Sydney Airport, Summerset, EBOS Group and Z Energy added considerable value. While only SkyCity Entertainment and EROAD detracted from fund performance.
- Both Sydney Airport and Z Energy announced they had received an unsolicited takeover offers notably higher than the stock prices at the time.

Performance

	One month	Three months	One year	Three years (p.a)	Five years (p.a)	Ten years (p.a)
Wholesale ¹	0.54%	5.06%	18.43%	12.23%	14.91%	16.80%
Benchmark ²	0.42%	1.30%	5.25%	5.81%	6.19%	6.96%
Retail ³	0.60%	4.56%	16.23%	10.57%	12.84%	14.24%
NZSE50 ⁴	0.63%	5.17%	13.72%	13.24%	13.55%	16.06%

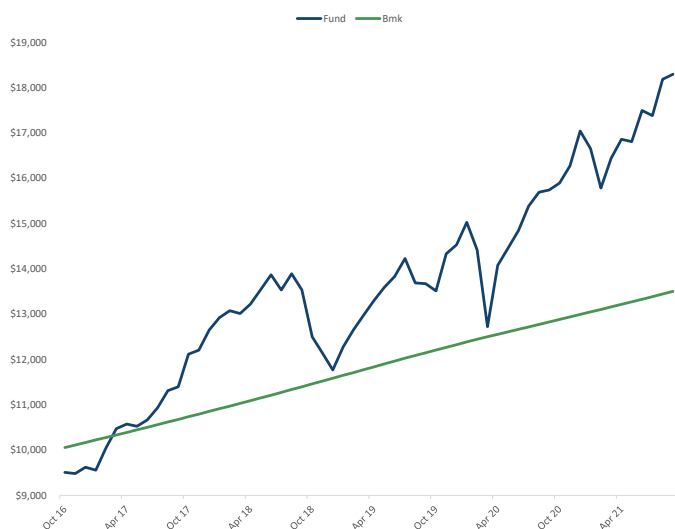
1. Returns are before tax and before the deduction of fees.

2. Benchmark: RBNZ Official Cash Rate plus 5% per annum. No tax or fees.

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

4. S&P / NZX 50 Index Gross (with Imputation Credits). No tax or fees.

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.

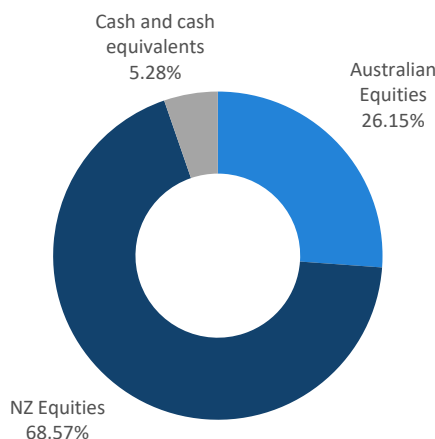
Overview

The 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 (quarter)	
What Helped:	What Hurt:
Sydney Airport	SkyCity Entertainment Ltd
Summerset Group Ltd	EROAD Ltd
Z Energy Ltd	Westpac Banking Corp

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

Top 10 Holdings (as at quarter end)			
Fisher & Paykel Healthcare	9.92%	Summerset Group Ltd	7.09%
Infratil Ltd	9.70%	Pushpay Holdings Ltd	5.34%
Spark New Zealand Ltd	7.71%	EBOS Group Limited	5.28%
Contact Entergy Ltd	7.59%	EROAD Ltd	5.23%
Z Energy Ltd	7.53%	Ingenia Group	5.10%
Number of holdings			17

Market Commentary

Global equity markets were mixed over the quarter with the prospect of interest rate increases in 2022, Chinese regulation of industries and companies and the potential collapse of the Evergrande Group weighing on markets. The Chinese equity market was particularly affected with the CSI 300 index down 6.9% over the quarter. Despite the spread of the Delta variant of COVID-19 around the world the vaccine rollout has enabled more freedom in many countries. With inflation moving higher and unemployment low the Reserve Bank of New Zealand was set to raise the Official Cash Rate before a surprise COVID-19 outbreak in New Zealand put that on hold. Earnings results in New Zealand for the period ending June were good but with the COVID-19 outbreak the near-term outlook is uncertain.

Fund Commentary

The fund ended the quarter up strongly returning 5.1%. The largest positive contributor was **Sydney Airport** (SYD) which jumped 38.7% after announcing an indicative non-binding bid from a consortium of the investors at \$8.25, a circa 42% premium to the pre-bid price. Other notable returns were positions **Summerset** (SUM), **Z Energy** (ZEL) and **EBOS Group** (EBO). SUM rose 14% after reporting a very strong half year result and a better-than-expected build rate for the year while EBO rose strongly (+10.9%) on an excellent full year financial result. ZEL rose 17.8% after announcing that it had received a conditional takeover bid from Ampol.

SkyCity Entertainment (SKC) fell 6.1% as its key money maker - the Auckland casino, was closed due to the move to alert level 4 in Auckland due to the COVID-19 outbreak. **EROAD** (ERD) fell over the quarter following a strong period of performance and having raised \$80.5m to fund the acquisition of a complimentary business.

During the quarter the funds holding in **ZEL** was increased while the holding in **SKC** was modestly reduced. The ERD holding was initially reduced before supporting the capital raising noted above.

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

Key Fund Facts

Distributions	Estimated annual fund charges (incl. GST)	Strategy size
Wholesale fund: Calendar quarter	Wholesale: negotiated outside of fund	\$131.6m
Retail fund: March and September	Retail: 1.15%, refer PDS for more details	
Hedging	Buy / Sell spread: 0.29% / 0.29%	Strategy Launch
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.	Performance fee	August 2006
	10% on gains above benchmark over 12-month period after fees and expenses. High water mark applies.	

Compliance

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

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