

Factsheet 31 March 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 were volatile over the quarter, initially selling off aggressively over January before drifting generally down over February. This occurred as markets fixated on firstly COVID-19, then inflation concerns, company earnings and the invasion of Ukraine.
- Somewhat surprisingly, even with the war in Ukraine confronting markets and the resulting oil (and other commodities) spiking, plus central banks acknowledging inflationary concerns, markets generally rallied in March.
- NZ 10-yr Government Bond sold off from 2.39% to 3.23% in response to the inflation outlook.
- Overall for the quarter, the United States S&P 500 index fell 5.0%, the Japanese Nikkei 225 index lost 3.4%, but the UK FTSE 100 index gained 1.8% along with the Australian ASX 200 index which rose 2.2%. The MSCI World index ended the quarter down 4.8%.

Fund Highlights

- The fund ended down 6.4% and 0.4% ahead of the index.
- A number of the fund's holdings reported earnings results for the period ending December.
- Overweight positions Infratil, New Zealand Refining (now renamed Channel Infrastructure NZ), Contact Energy and Sky Network Television. Our underweight positions in Ryman Healthcare added value.
- Overweight positions Summerset, Aristocrat Leisure and Ingenia Communities detracted value.

Performance

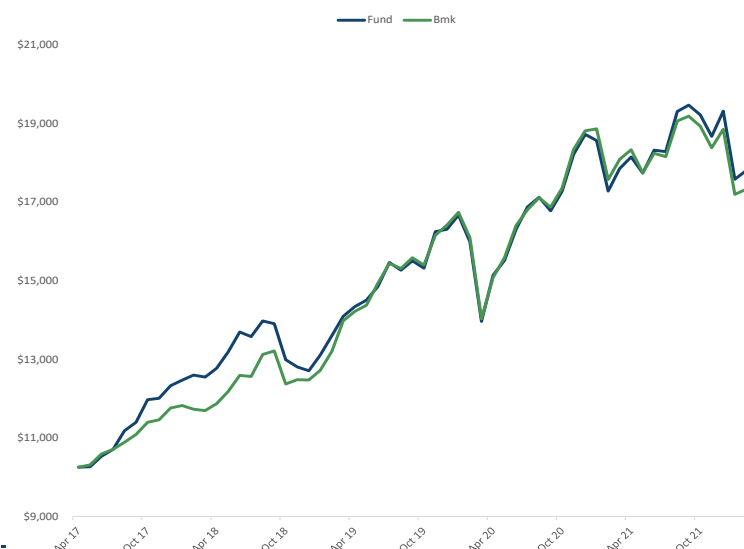
| | One month | Three months | One year | Three years (p.a) | Five years (p.a) | Ten years (p.a) |
|------------------------|-----------|--------------|----------|-------------------|------------------|-----------------|
| Wholesale ¹ | 1.51% | -6.42% | 1.26% | 8.65% | 12.57% | 15.33% |
| Benchmark ² | 1.36% | -6.85% | -2.90% | 7.91% | 11.93% | 14.41% |
| Retail ³ | 1.45% | -6.59% | 0.45% | 7.62% | 11.36% | 13.95% |

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.

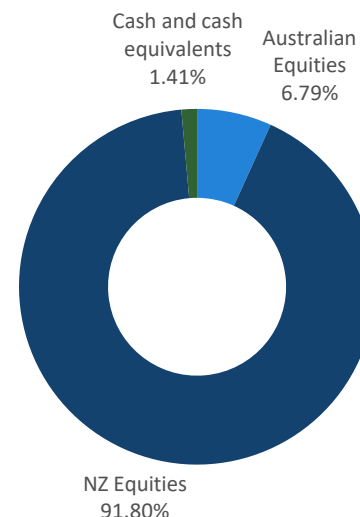
Overview

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: | |
| Ryman Healthcare | UW | Summerset Group | OW |
| Infratil Ltd | OW | Aristocrat Leisure | OW |
| Channel Infrastructure (NZ Refining) | OW | Ingenia Communities | OW |
| OW: overweight; UW: underweight; NH: no holding | | | |
| Top 10 Holdings (% of fund) | | | |
| Fisher & Paykel Healthcare | 11.81 | Auckland International | 6.54 |
| Spark New Zealand Ltd | 7.75 | EBOS Group Limited | 6.06 |
| Infratil Limited | 7.52 | Fletcher Building Ltd | 5.85 |
| Mainfreight Limited | 7.12 | Summerset Group Ltd | 4.45 |
| Contact Energy Limited | 6.69 | Meridian Energy Ltd NPV | 4.23 |

| Sector Allocation (% of fund) | Fund | Benchmark |
|-------------------------------|-------|-----------|
| Health care | 26.42 | 24.16 |
| Utilities | 21.16 | 20.27 |
| Industrials | 19.51 | 22.51 |
| Communication services | 12.01 | 10.00 |
| Consumer discretionary | 4.93 | 2.83 |
| Real estate | 3.89 | 9.51 |
| Information technology | 3.71 | 1.89 |
| Consumer staples | 3.29 | 4.75 |
| Energy | 2.10 | 1.57 |
| Cash and cash equivalents | 1.41 | 0.00 |
| Financials | 0.79 | 2.51 |
| Materials | 0.78 | 0.00 |
| Number of holdings | 38 | 50 |

Market Commentary

Global markets much like their home domiciles, are all in different phases of dealing with or responding to COVID-19 variants and economic activity, quantitative easing unwind and inflationary concerns, hence market returns are varied. Inflation continues to be relatively high in a number of economies and as a result there is a focus on the response from Central Banks. With company results concluded, our focus turned to assessing cost pressures and pricing power together with the impacts of constrained supply chains. The market and Nikko are also highly focused on 'reopening beneficiaries'.

Fund Commentary

The largest positive contributors to relative return were overweight positions in **Infratil** (IFT) and **Channel Infrastructure** (NZR/CHI), **Contact Energy** (CEN), and **Sky Television** (SKT). IFT up 3.1%, the company hosted a well-received investor day which provided confidence in the strong, long-term growth outlook. Additionally, there was a 15% increase in the valuation of IFT's 48% investment in CDC Data Centres. NZR up 10.6%, with the stock benefiting from a reasonable operational update, followed by satisfactory final result as New Zealand Refining. CEN up 2.9%, CEN expects its Tauhara geothermal project to produce more energy than previously expected but the costs of the project will also be higher. CEN's 1H22 result delivered a record 1H hydro generation and earnings. With earnings assisted by lower operating costs. SKT up 7.4%, delivered a strong result and announced the sale of its property in Mt Wellington. For the first time in over five years SKT delivered revenue growth - overall and in the crucial subscriber revenue line, alongside a stabilisation in programming costs. The largest negative contributors to relative return were overweight positions in **Summerset** (SUM), **Aristocrat Leisure** (ALL) and **Ingenia Communities** (INA). SUM down 13.5%, driven by several factors serving to place some pressure on retirement village operators. The RBNZ raised the official cash rate for the first time in seven years, in addition there was a COVID-19 related drop in nationwide home sales, and downward net migration trends. SUM delivered a robust result, with strong growth in new sale and resale gains, somewhat offset by higher expenses. ALL was down 15.8%, with a number of issues negatively impacting the stock. The company made a A\$5bn takeover offer for Playtech, a UK based digital gaming business which failed to complete. This disappointed the market; it would have been transformational for Aristocrat and highly earnings accretive. INA down 17.8%, with the company's 1H result revealing lower new home settlements than expected, in addition to lockdowns impacting NSW and Victorian holiday park assets. The company remains confident and guides to a materially stronger 2H. Key portfolio changes during the quarter included adding a new position, **Charter Hall Group** (CHC) and exiting **Centuria Industrial REIT** (CIP), increases in **Ryman Healthcare** (RYM), **Mercury** (MCY), **Pushpay** (PPH) and **Sky City** (SKC); and decreases in **Westpac** (WBC), **ANZ** (ANZ), **NEXTDC** (NXT), and **Chorus** (CNU). (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 \$380.9m |
| | | 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

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