

Factsheet 31 August 2022

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 during August.
- Over the month the US 10-year bond yield rose 54bps, the New Zealand 10-year yield increased 56bps while the Australian 10-year ended up 54bps.
- The United States S&P 500 index fell 4.2%, the Japanese Nikkei 225 index rose 1.0%, the UK FTSE 100 index lost 1.9%, the Australian ASX 200 index gained 1.2% and the MSCI World index ended the month down 2.3%.
- The S&P/NZX 50 index ended the month up 1.0%.

Fund Highlights

- The fund ended the month down 0.3% after being up strongly last month.
- A number of New Zealand and Australian companies reported results for the period ended June during the month.
- Positions in Fletcher Building, Infratil and Spark performed notably and well.
- EROAD, NextDC and Fisher & Paykel Healthcare performed poorly and detracted from performance.

Performance

	One month	Three months	One year	Three years (p.a)	Five years (p.a)	Ten years (p.a)
Wholesale ¹	-0.33%	2.38%	-11.39%	6.89%	8.84%	14.33%
Benchmark ²	0.63%	1.80%	6.21%	5.71%	6.10%	6.84%
Retail ³	-0.44%	2.14%	-12.31%	5.22%	7.11%	11.85%
S&P/NZX 50 ⁴	0.96%	2.70%	-11.62%	3.25%	9.13%	13.41%

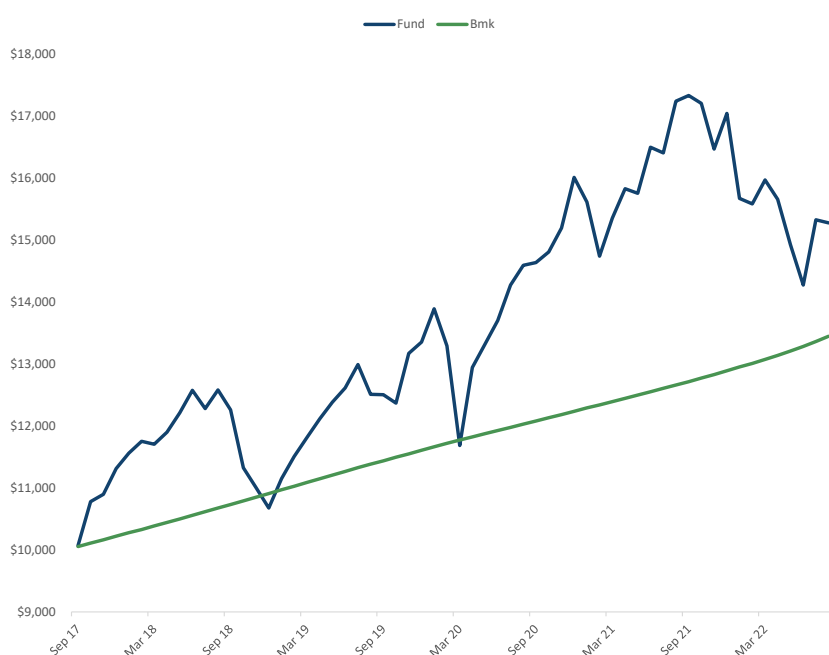
1. Returns are before tax and before the deduction of fees.

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.

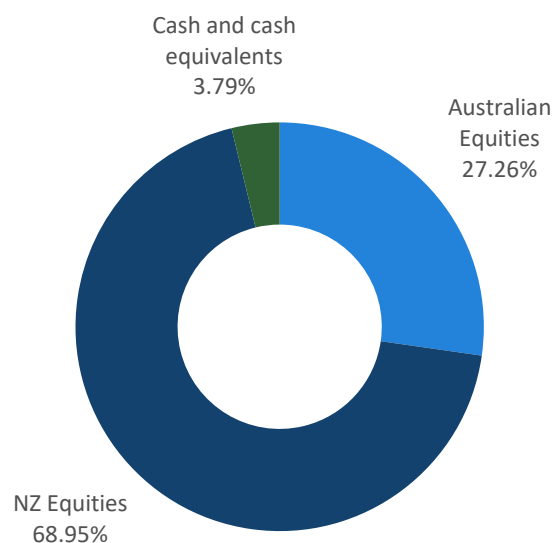
Overview

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 (month)	
What Helped:	What Hurt:
Infratil Ltd	EROAD Ltd
Spark Ltd	NEXTDC Ltd
Fletcher Building Ltd	Fisher & Paykel Healthcare Ltd

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

Top 10 Holdings			
Infratil Limited	12.00%	Ingenia Communities	6.11%
Spark New Zealand Ltd	10.43%	Pushpay Ltd	5.99%
Contact Energy Limited	8.64%	NEXTDC Ltd	5.81%
EBOS Group Limited	8.20%	Waypoint REIT	5.64%
Aristocrat Leisure Ltd	6.72%	Mainfreight Ltd	5.34%
Number of holdings			16

Market Commentary

Global equity markets were mixed during August. This was partly driven by the Australasian earnings season, in addition to bond yield movements. While company earnings results were generally as expected, labour availability, increasing wages and rising interest rates are the key issues that companies are having to manage. Central banks continue their battle against inflation with cash rate hikes. Both the Reserve Bank of Australia and Reserve Bank of New Zealand increased their official cash rates by 50 basis points. Bond yields continue to be volatile with 10-year government bond yields for New Zealand, Australia and the United States up 56bps, 54bps and 54bps respectively. Yields have been supportive of equity markets.

Fund Commentary

The fund ended the month down 0.3%. The largest positive contributors to monthly performance were positions **Fletcher Building (FBU)**, **Infratil (IFT)** and **Spark (SPK)**. FBU continued its recent rally following up their investor day comments with a high-quality result and supportive comments for their FY23 earnings bridge. FBU also announced a comprehensive parental leave scheme which was pleasing. IFT up 8.0%, announced new capital and co-investor for Longroad Energy, a deal which values the business at US\$2bn, representing a material lift against prior estimates. In addition, IFT held their annual general meeting and reaffirmed full-year earnings guidance. As expected SPK delivered a high-quality result and signalled a lift in dividend per share in FY23 which the market liked, lifting the return for the month by ~6%.

The negative contributors to monthly performance were our positions in **EROAD (ERD)**, **NextDC (NXT)** and **Fisher & Paykel Healthcare (FPH)**. ERD fell 30% as the market continued to digest the departure of the founder and the stock came under selling pressure from a substantial shareholder. Notwithstanding the personnel changes the stock continues show attractive return characteristics. NXT fell 10% over the month detracting from returns. While the company returned to profit, the market focused on lower-than-expected facilities utilisation notwithstanding medium term growth drivers. FPH fell 7.3% over the month following first time FY23 guidance ahead of the ASM which surprised on a number of fronts. The negative earnings revision to account for covid19 had in essence been under appreciated meaning target prices were adjusted. We materially reduced our investment in FPH given our expectation of weaker price performance.

The key portfolio change during the month was to reduce **Fisher & Paykel (FPH)**.

(**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	\$83m
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.	
Exclusions Securities that conduct activities listed on the Schedule to Cluster Munitions Prohibition Act 2009.		
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 month.

Contact Us

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