

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 sold off over the quarter driven by earnings season, continued inflation concerns and bond yield movements.
- Over the quarter the US 10-year bond yield rose 82bps, the New Zealand 10-year yield increased 44bps, the Australian 10-year added 23bps while the UK 10-year jumped 186bps.
- The United States S&P 500 index fell 5.3%, the Japanese Nikkei 225 index declined 1.7%, the UK FTSE 100 index lost 3.8%, the Australian ASX 200 index rose 0.4% and the MSCI World index ended the quarter down 4.9%.
- The S&P/NZX 50 index ended the quarter up 2.2%.

Fund Highlights

- The fund ended the quarter up 0.32% which lagged the general equity market's rebound.
- A number of New Zealand and Australian companies reported results for the period ended June during the quarter.
- Positions Infratil, Spark and Contact Energy contributed to performance.
- NextDC, Pushpay Holdings and Ramsay Health Care, 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	-6.27%	0.32%	-17.38%	4.62%	7.30%	13.17%
Benchmark ²	0.63%	1.88%	6.43%	5.76%	6.12%	6.85%
Retail ³	-6.36%	0.08%	-18.38%	2.98%	5.56%	10.72%
S&P/NZX 50 ⁴	-4.32%	2.17%	-15.97%	1.14%	7.77%	12.35%

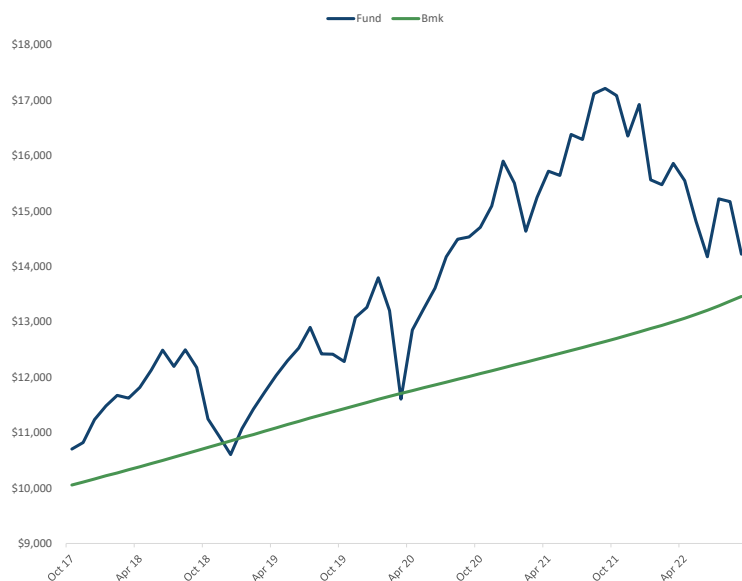
1. Returns are before tax and before the deduction of fees.

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.

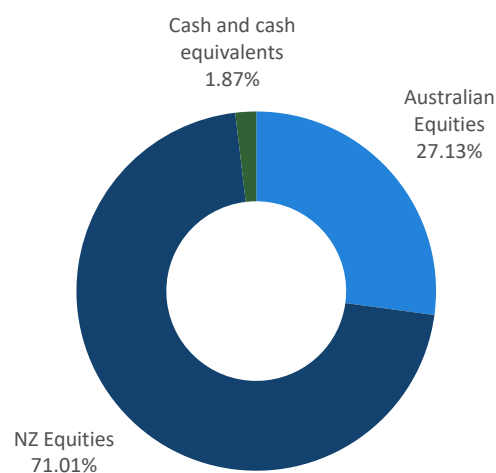
Overview

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	NEXTDC Ltd
Spark Ltd	PushPay Holdings
Contact Energy	Ramsay Healthcare

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

Top 10 Holdings			
Infratil Ltd	10.81%	Mainfreight Ltd	6.09%
Spark New Zealand	10.75%	Ingenia Communities	6.06%
EBOS Group Ltd	9.18%	Waypoint REIT	5.78%
Contact Energy Ltd	9.16%	Pushpay Holdings Ltd	5.75%
Aristocrat Leisure Ltd	7.04%	NEXTDEC Ltd	5.55%
Number of holdings			17

Market Commentary

Global equity markets sold off over the quarter driven by earnings season, continued inflation concerns and 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 aggressive cash rate hikes. Both the Reserve Bank of Australia and the US Federal Reserve increased cash rates by 150 basis points while the Reserve Bank of New Zealand and the Bank of England increased their official cash rates by 100 basis points. Bond yields continue to be volatile with 10-year government bond yields for New Zealand, Australia, the United Kingdom and the United States up 44bps, 23bps, 186bps and 82bps respectively.

Fund Commentary

The fund ended the quarter up 0.32% after a very volatile period. The largest positive contributors to quarterly performance were positions **Infratil (IFT)**, **Spark (SPK)** and **Contact Energy (CEN)**. IFT benefited from Vodafone (of which IFT owns 50%) announcing the partial sale of its cell tower assets at an attractive valuation along with a new investor buying into its Longroad Energy business at a very attractive price which flows through to an increased value for IFT’s Longroad Energy holding. IFT rose 12.6% over the quarter. 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 quarter by 7.7%. Contact Energy performed well during the quarter supported by a strong result and an ever improving move towards decarbonisation. The stock rose 6.5% for the quarter.

The negative contributors were our positions in **NextDC (NXT)**, **Pushpay (PPH)** and **Ramsay Health Care (RHC)**. NXT the data centre operator, fell 14.8% during the quarter due to weak new contracted capacity and modest forward guidance (albeit hyperscale contracts are lumpy).

RHC fell 19% following the termination of takeover negotiations with the KKR lead private equity lead consortium. The KKR lead consortium could not provide an appropriately priced alternative takeover offer having walked back their original offer of effectively \$88 per share. Continuing the theme of M&A, Pushpay fell 13% over the quarter as the media speculated on the takeover interest (expressions of interest) in the company had disappeared. Operationally the business continues to perform well and the company commented they remain in compliance with their continuous disclosure obligations.

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

(**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	\$74m
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
Exclusions Securities that conduct activities listed on the Schedule to Cluster Munitions Prohibition Act 2009.	10% on gains above benchmark over 12-month period after fees and expenses. High water mark applies.	
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

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