

# 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 had a strong quarter on the back of lower-than-expected inflation in the United States and the prospect of smaller than expected increases in the Federal Reserve's funds rate.
- The United States S&P 500 index rose 7.1%, the Japanese Nikkei 225 index added 0.6%, the UK FTSE 100 index gained 8.1%, the Australian ASX 200 index increased 9.4% and the MSCI World index ended the quarter up 7.4%.
- The S&P/NZX 50 index ended the quarter up 3.8%.

## Fund Highlights

- The fund ended the quarter up 4.1%, 0.3% ahead of the index return.
- A number of the fund's holdings reported earnings for the period ended September.
- EROAD was removed from the S&P/NZX 50 index while Vulcan Steel was added.
- Underweight positions in Ryman Healthcare and Vital Healthcare and an overweight position in Pushpay added value. Overweight positions in Summerset and Aristocrat Leisure and an underweight position in Fisher & Paykel Healthcare detracted from value.

## Performance

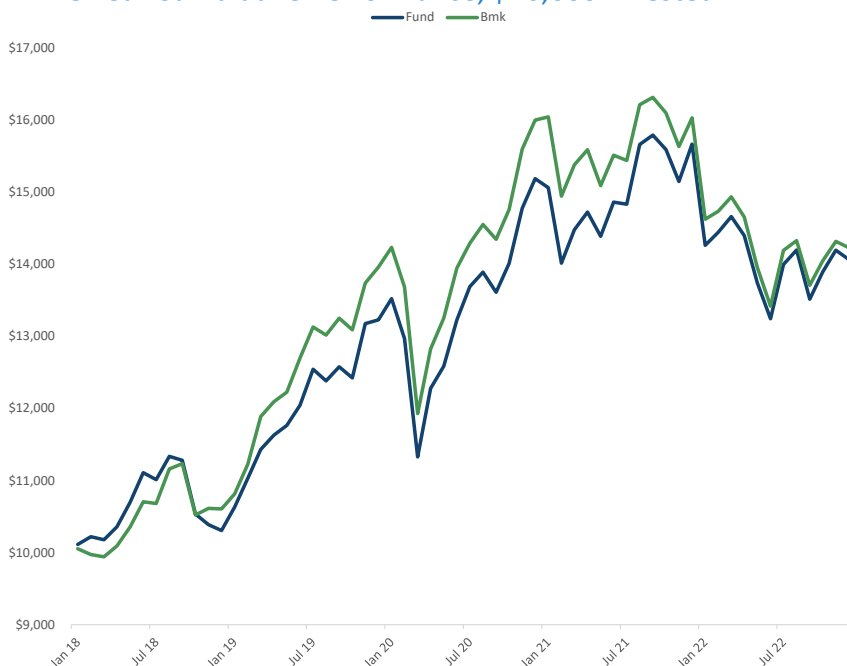
	One month	Three months	One year	Three years (p.a)	Five years (p.a)	Ten years (p.a)
Wholesale <sup>1</sup>	-0.92%	4.06%	-10.24%	2.06%	7.06%	13.09%
Benchmark <sup>2</sup>	-0.61%	3.79%	-11.25%	0.64%	7.31%	12.08%
Retail <sup>3</sup>	-0.99%	3.80%	-11.04%	1.18%	6.02%	11.75%

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<sup>1, 2</sup>



## Portfolio Manager

**Stuart Williams,**  
**Head of Equities**



Responsible for the Domestic Equities team and managing the Core and Concentrated Funds. 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.

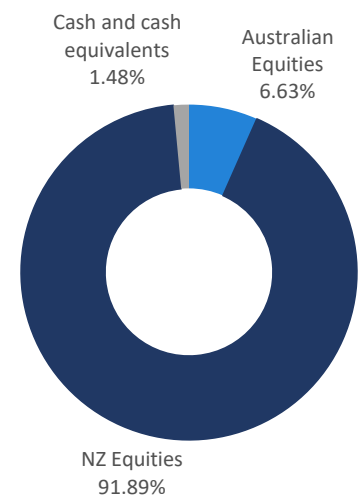
## Overview

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 Ltd	UW	Summerset Group	OW
Pushpay Holdings	OW	Aristocrat Leisure	OW
Vital Healthcare Property	NH	Fisher&Paykel Healthcare	UW
OW: overweight; UW: underweight; NH: no holding			
Top 10 Holdings (% of fund)			
Fisher & Paykel Healthcare	10.38	Mainfreight Limited	6.34
Spark New Zealand Ltd	10.09	EBOS Group Limited	5.82
Infratil Limited	8.64	The A2 Milk Company	4.74
Auckland International Airport Ltd	7.38	Meridian Energy Ltd NPV	4.53
Contact Energy Limited	7.24	Fletcher Building Ltd	4.21

Sector Allocation (% of fund)	Fund	Benchmark
Health care	23.05	22.74
Utilities	23.04	21.77
Industrials	17.93	21.85
Communication services	14.69	12.24
Consumer staples	5.37	6.01
Consumer discretionary	4.25	2.56
Information technology	4.03	1.51
Real estate	3.11	8.41
Materials	1.68	0.43
Cash and cash equivalents	1.48	0.00
Energy	1.37	0.00
Financials	0.00	2.48
<b>Number of holdings</b>	<b>36</b>	<b>50</b>

## Market Commentary

Global equity markets are jumping at any sign that interest rates won't peak as high as initially expected. United States inflation came in at 7.7% which was below what the market was expecting. This led to the Nasdaq leaping more than 7% and the S&P 500 more than 5% on the day. Despite what markets are thinking, inflation remains high and central banks are focused on getting on top of it and as a result cash rates continue to be increased. The US Federal Reserve, the Bank of England, the European Central Bank and the Reserve Bank of New Zealand all increased their cash rates by 1.25% while the Reserve Bank of Australia increased their cash rate by 0.75%. The New Zealand official cash rate is now 4.25% and the RBNZ is signalling that it will peak at 5.5%.

## Fund Commentary

The fund ended the quarter up 4.1%, 0.3% ahead of index return of 3.8%. The largest positive contributors to relative return were underweight positions in **Ryman Healthcare** (RYM) and **Vital Healthcare** (VHP) and an overweight position in **Pushpay** (PPH). RYM's result showed debt had continued to grow and now exceeds \$3.0b. RYM also continues to be impacted by falling house prices and negative housing market sentiment. RYM ended the quarter down 36.7%. VHP fell 10.7% as property stocks are impacted by increasing interest rates and the start of portfolio devaluations. PPH rose 16.4% following receiving a takeover offer at \$1.34 per share.

The largest negative contributors to relative return were overweight positions in **Summerset** (SUM) and **Aristocrat Leisure** (ALL) and an underweight position in **Fisher & Paykel Healthcare** (FPH). SUM fell 17.9% as investors remain wary of its residential property link given falling house prices and increasing mortgage rates. ALL fell 6.3% (in AUD) despite an excellent result with strong profit growth (~22% YoY) as the market chose to focus on the company's mobile-games unit performance. FPH announced a stronger than expected result and rose 23.5% over the period.

Key portfolio changes during the quarter included adding to positions in **Mercury** (MCY), **Contact Energy** (CEN), **RYM**, **Allkem** (AKE) and **A2 Milk** (ATM). Positions were reduced in **EBOS Group** (EBO), **Fletcher Building** (FBU), **Spark** (SPK), **Chorus** (CNU), **Waypoint REIT** (WPR) and **Auckland International Airport** (AIA). (**Bold** denotes stocks held in the portfolio).

## Key Fund Facts

### Distributions

Wholesale fund: Calendar quarter.  
Retail fund: March and September

### Estimated annual fund charges (incl. GST)

Wholesale: Negotiated outside of fund  
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** \$342m  
**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](http://www.nikkoam.co.nz) | [nzenquiries@nikkoam.com](mailto:nzenquiries@nikkoam.com)

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