

Factsheet 30 September 2023

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 struggled over the quarter as sticky inflation saw bond yields spike and central banks push out the timing of interest rate cuts.
- The United States S&P 500 index fell 3.7%, the Japanese Nikkei 225 declined 4.0%, the UK FTSE 100 index rose 1.0%, the Australian ASX 200 index lost 0.8% and the MSCI World index ended the quarter down 2.5% (in local terms).
- The S&P/NZX 50 index had a tough quarter ending down 4.8%.

Fund Highlights

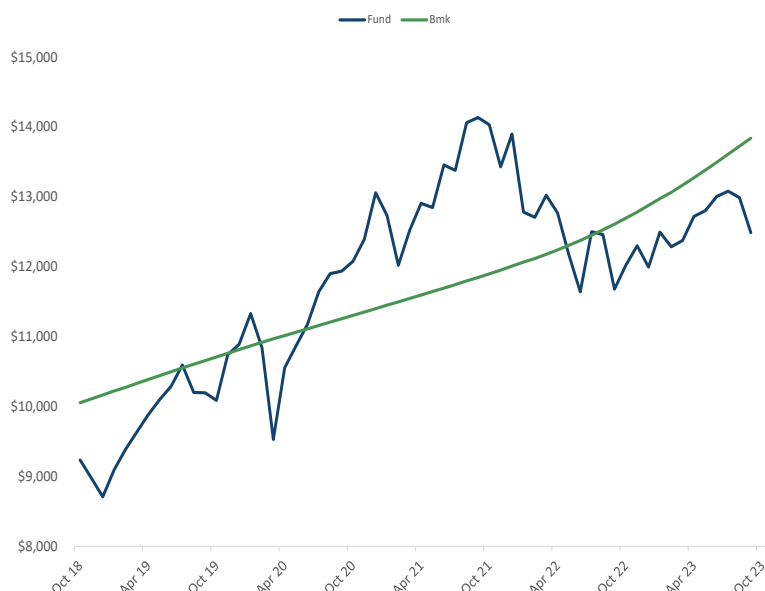
- The fund ended the quarter down 4.0%.
- News flow in the September quarter was dominated by companies announcing their earnings results for the period ending June. Results and outlook statements were dominated by increasing costs from the likes of labour, insurance and interest.
- Positions in Summerset, Aristocrat Leisure and Ingenia Communities added value while positions in Allkem, Fisher & Paykel Healthcare and Waypoint REIT detracted from value.

Performance

	One month	Three months	One year	Three years (p.a)	Five years (p.a)	Ten years (p.a)
Wholesale ¹	-3.85%	-3.97%	6.94%	1.52%	4.55%	11.38%
Benchmark ²	0.82%	2.55%	9.76%	7.13%	6.72%	7.07%
Retail ³	-3.90%	-4.18%	5.80%	0.12%	3.14%	9.33%
S&P/NZX50 ⁴	-1.87%	-4.82%	3.01%	-0.53%	4.68%	10.19%

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

Michael Sherrock,
Head of Equities



Michael joined Nikko AM in 2006 and covers the Property, Energy, Materials, Metals and Mining and Media sectors. He has over 20 years' experience and previously held roles with Schroders UK and ASB Group Investments. Michael is a CFA charter-holder and holds a Bachelor of Commerce degree from the University of Auckland.

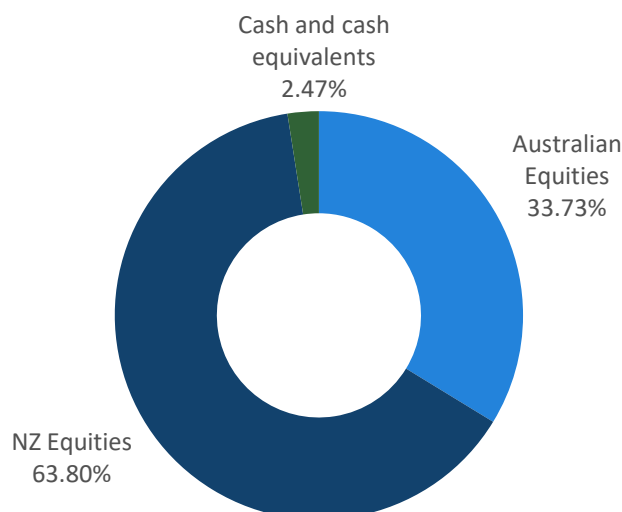
Overview

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



NIKKO AM CONCENTRATED EQUITY STRATEGY

Contribution to Performance (Quarter)	
What Helped:	What Hurt:
Summerset	Allkem
Aristocrat Leisure	Fisher & Paykel Healthcare
Ingenia Communities	Waypoint REIT

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

Top 10 Holdings (% of fund)			
Infratil	13.05	Aristocrat Leisure	7.13
Contact Energy	12.48	Mainfreight	5.14
Spark New Zealand	12.34	Ingenia Communities	5.03
NextDC	9.49	Summerset Group	5.02
Fisher & Paykel Healthcare	9.39	Waypoint REIT	4.67
Number of holdings			14

Market Commentary

Global equity markets struggled over the quarter as sticky inflation saw bond yields spike and central banks push out the timing of interest rate cuts. The New Zealand 10-year government bond rose 69 basis points ending the quarter at 5.31% while the United States government bond rose 73 basis points and ended the quarter at 4.57%. Both have pushed higher again by 20 basis points post quarter end. In its August Monetary Policy Statement (MPS), the Reserve Bank of New Zealand has pushed out its expectations for rate cuts from late 2024 to early 2025, about six months later than it had signalled at its May MPS.

The New Zealand company earnings results saw most meet expectations, but the disappointment came in the outlook statements which were impacted by continued operating cost inflation and interest rate impacts. New Zealand investors will be focusing on the general election on the 14th of October with the hope that a clear outcome eventuates without having to have a drawn-out negotiation between potential coalition partners.

Fund Commentary

The largest positive contributors to performance over the quarter were positions in **Summerset (SUM)**, **Aristocrat Leisure (ALL)** and **Ingenia Communities (INA)**. SUM rose 7.6% following a good half year result and also is benefiting from improving housing market sentiment. ALL rose 5.7% (in AUD), assisted by a management update that indicated that the business is performing well. INA rose 7.1% (in AUD) after announcing a result and outlook that was a touch better than expected.

The largest detractors to performance were positions in **Allkem (AKE)**, **Fisher & Paykel Healthcare (FPH)** and **Waypoint REIT (WPR)**. AKE decreased 26.6% giving back much of the gains it had previously achieved year-to-date. In addition to announcing a slight delay to certain key lithium projects the company has been affected by deteriorating commodity prices. Near term, the market will await the independent expert report relating to the proposed merger with US listed Livent Corp and a subsequent shareholder vote by calendar year end. FPH fell 11.9% after reiterating its earnings guidance at its Annual Shareholder Meeting but it will require a strong second half of the year to achieve it. Despite a result in line with expectations, WPR fell 11.6% (in AUD) as it was dragged lower by higher bond rates which saw a material sell off in Australian property stocks late in the quarter.

Portfolio changes over the quarter included adding to its positions in FPH, SUM and AKE while reducing positions in ALL, **Infratil (IFT)** and **NXT**.

(**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	\$62.5m
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 Controversial weapons (including but not limited to cluster munitions and chemical, biological and nuclear weapons).			
Restrictions Tobacco stocks, 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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