

Factsheet 30 September 2023

# 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 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 4.7%, 0.1% ahead of the index return.
- 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.
- Overweight positions in Sky Network Television, Infratil and Contact Energy added value. Overweight positions in Allkem and Restaurant Brands and an underweight position in Heartland Group 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>	-2.27%	-4.72%	5.12%	1.44%	4.72%	11.36%
Benchmark <sup>2</sup>	-1.87%	-4.82%	3.01%	-0.53%	4.68%	10.19%
Retail <sup>3</sup>	-2.33%	-4.93%	4.16%	0.55%	3.75%	10.09%

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

**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.



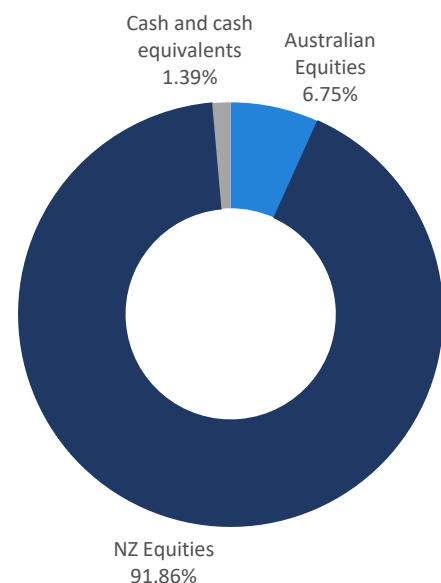
## Overview

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



Attribution to Performance (Quarter)				Sector Allocation (% of fund)	Fund	Benchmark
<b>What Helped:</b>		<b>What Hurt:</b>		Utilities	26.36	24.81
Sky Network Television	OW	Allkem	OW	Health care	25.63	22.77
Infratil	OW	Restaurant Brands	OW	Industrials	16.85	22.83
Contact Energy	OW	Heartland Group	NH	Communication services	14.89	11.16
OW: overweight; UW: underweight; NH: no holding				Consumer discretionary	3.76	2.25
Top 10 Holdings (% of fund)				Consumer staples	3.63	3.89
Fisher & Paykel Healthcare	10.86	Meridian Energy	5.07	Real estate	2.79	8.27
Infratil	10.61	Mainfreight	4.92	Information technology	2.17	0.69
Spark New Zealand	9.90	Ryman Healthcare	4.70	Cash and cash equivalents	1.39	0.00
Auckland International Airport	8.68	EBOS Group	4.66	Materials	1.33	0.45
Contact Energy	7.70	A2 Milk	3.63	Energy	1.20	0.34
				Financials	0.00	2.54
				<b>Number of holdings</b>	<b>29</b>	<b>50</b>

## 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 the fund's relative return over the quarter were overweight positions in **Sky Network Television** (SKT), **Infratil** (IFT) and **Contact Energy** (CEN). SKT rose 7.0% following the release of its earnings result in which it outlined strong growth expectations over the next three years. At its Annual Shareholder Meeting IFT advised that they expect earnings to be towards the top of its previous guidance. IFT ended the quarter up 0.6%. CEN added 2.7% after guiding to good earnings growth in the year ahead while announcing its earnings for the current year.

The largest negative contributors to our relative return were from overweight positions in **Allkem** (AKE) and **Restaurant Brands** (RBD) and an underweight (nil) position in Heartland Group (HGH). 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 U.S. listed Livent Corp and a subsequent shareholder vote by calendar year end. RBD decreased by 31.2%. RBD reversed the optimistic outlook delivered at their May Annual Shareholder Meeting, instead warning of ongoing cost pressures and an inability to pass these through to the customer without unduly tarnishing brand loyalty. HGH increased by 9.8%. The bank boosted its full year profit in tough trading conditions and expects further improvement in the new financial year.

Key portfolio changes during the quarter included adding to our position in **AKE**, **Auckland International Airport** (AIA), **Fisher & Paykel Healthcare** (FPH), **Fletcher Building** (FBU), **Ryman Healthcare** (RYM), **Summerset** (SUM), SKT and **Meridian Energy** (MEL). Positions were reduced in **IFT**, **NXT**, **CEN**, **Aristocrat Leisure** (ALL) and **Mainfreight** (MFT) while the position in Scales (SCL) was divested. (**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** \$320.4m  
**Strategy Launch** Oct 2007

**Exclusions:** Controversial weapons (including by 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.

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