

# Nikko AM Core Equity Strategy

Monthly Update 31 December 2023

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 were weak in October before staging a strong recovery over November and December as bond yields fell sharply.
- The United States S&P 500 index rose 11.2%, the Japanese Nikkei 225 added 5.0%, the UK FTSE 100 index gained 1.7%, the Australian ASX 200 index increased 8.4% and the MSCI World index ended the quarter up 9.4% (in local terms).
- The S&P/NZX 50 index ended the quarter up 4.3%.

## Fund Highlights

- The fund ended the quarter up 4.16%, 0.14% behind the index return.
- There were a number of company results announcements and Annual Shareholder Meetings during the quarter.
- Several takeover offers were disclosed during the quarter - Sky Network Television, Rakon and Arvida.
- Underweight positions in Heartland Group, Air New Zealand and Port of Tauranga added value. Overweight positions in Allkem, Ryman Healthcare and Infratil detracted from value.

## Performance

	One month	Three months	One year	Three years (p.a.)	Five years (p.a.)	Ten years (p.a.)
<b>Wholesale<sup>1</sup></b>	4.16%	4.16%	5.22%	-0.86%	7.50%	11.68%
<b>Benchmark<sup>2</sup></b>	3.96%	4.30%	3.51%	-2.72%	6.79%	10.64%
<b>Retail<sup>3</sup></b>	4.06%	3.89%	4.25%	-1.75%	6.47%	10.42%

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).

## 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 charterholder 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.

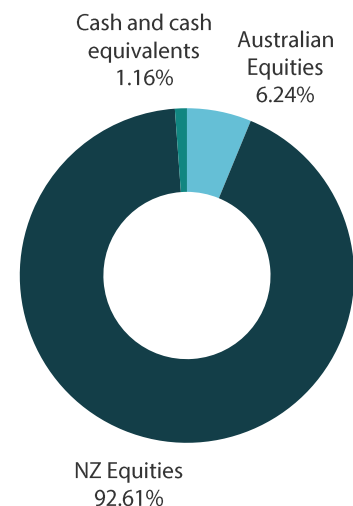
## Objective

The fund aims to outperform the benchmark return by 3% per annum before fees, expenses and taxes over a rolling three-year period.

## Five-Year Cumulative Performance, \$10,000 invested<sup>1,2</sup>



## Asset Allocation



Attribution To Performance				Sector Allocation (% of fund)			Fund	Benchmark
<b>What Helped:</b>		<b>What Hurt:</b>		Industrials		27.35	30.23	
Heartland Group	NH	Infratil	OW	Health care		26.14	22.66	
Air New Zealand	NH	Ryman Healthcare	OW	Utilities		16.24	17.20	
Port of Tauranga	NH	Allkem	OW	Communication services		15.60	11.31	
OW: overweight; UW: underweight; NH: no holdings				Consumer discretionary		3.37	2.22	
<b>Top 10 Holdings (% of fund)</b>				Consumer staples		3.02	3.75	
Fisher & Paykel Healthcare	11.69	Meridian Energy	5.31	Real estate		2.30	8.35	
Infratil	10.32	Mainfreight	4.86	Information technology		2.27	1.21	
Spark New Zealand	10.32	Ryman Healthcare	4.55	Materials		1.31	0.45	
Auckland International Airport	9.30	EBOS	4.42	Energy		1.23	0.30	
Contact Energy	7.78	Summerset	3.78	Cash and cash equivalents		1.16	0.00	
				Financials		0.00	2.32	
				<b>Number of holdings</b>		<b>28</b>	<b>50</b>	

## Market Commentary

Global equity markets dropped in October as economic data and the Gaza conflict led to a flight to quality and safety which drove bond yields higher. November and December saw markets rebound strongly as bond yields dropped on signs that rate hikes might be over in the United States and the Federal Reserve indicated a number of rate cuts in 2024. Interest rate moves and expectations continue to dominate the equity market rather than earnings results and the outlook for earnings. The quarter also saw the New Zealand election which after a number of weeks of waiting for the final result and then several weeks of negotiation saw a right leaning coalition form government. The year finished strong across major markets, posting 12 month returns of: Nasdaq up 43.4%, S&P 500 up 24.2%, Nikkei 225 up 28.2% and the S&P / ASX 200 up 12.4%. The New Zealand market was among the weaker, only up 3.5%.

## Fund Commentary

The largest positive contributors to the fund's relative return were underweight positions in Heartland Group (HGH), Air New Zealand (AIR) and Port of Tauranga (POT). HGH, AIR and POT all announced updates to the market that were disappointing. HGH fell 16.9% after downgrading earnings guidance after a slower than expected start to their financial year. AIR noted of softness in domestic travel including corporate and government along with domestic and trans-Tasman leisure travel. AIR ended the quarter down 13.0%. POT fell 4.8% after providing a trading update at its annual shareholder meeting and earnings guidance below market expectations. The largest negative contributors to relative return were from overweight positions in **Allkem (AKE)**, **Ryman Healthcare (RYM)** and **Infratil (IFT)**. The merger of AKE and Livent was approved which saw AKE cease trading late in December and start trading under its new name, Arcadium Lithium. AKE fell in October and November on weak lithium markets before recovering in December as markets steadied and the merger was approved. AKE ended the quarter down 4.7%. RYM made a small reduction to the bottom of its earnings guidance but pleasingly there was better disclosure. Some investors, most likely retail, would have been disappointed by the announcement that there would be no dividend for at least the next two years. RYM ended the quarter down 6.5%. IFT delivered their first half FY24 result, demonstrating robust operating performance across their portfolio companies and lifted their mid-point EBITDA guidance for FY24. The updated Longroad independent valuation did not lift as meaningfully as some expected due to an increase in discount rates. IFT fell 0.9% over the quarter. Key portfolio changes during the quarter included adding to our position in **Contact Energy (CEN)**, **RYM**, **Summerset (SUM)**, **Spark (SPK)** and Channel Infrastructure (CHI). Positions in **A2 Milk (ATM)**, **Mainfreight (MFT)**, **EBOS (EBO)**, **Meridian (MEL)**, **Restaurant Brands (RBD)**, **Aristocrat Leisure (ALL)**, and Fletcher Building were reduced. The fund's holding in CHC was divested. (**Bold** denotes stocks held in the portfolio).

## Key Fund Facts

<b>Estimated annual fund charges (incl. GST)</b>		<b>Exclusions:</b>	Controversial weapons (including by not limited to cluster munitions and chemical, biological and nuclear weapons).	<b>Strategy Launch:</b>	October 2007
<b>Wholesale:</b>	Negotiated outside of the unit price.	<b>Restrictions:</b>	Tobacco stocks, fossil fuels. For more information, please refer to the Statement of Investment Policy and Objectives (SIPO) on our website <a href="https://www.nikkoam.co.nz/invest/retail">https://www.nikkoam.co.nz/invest/retail</a> .	<b>Strategy size:</b>	\$312.3m
<b>Retail:</b>	0.95%, refer to PDS for more details.			<b>Buy / Sell spread:</b>	0.29%/0.29%
<b>Distributions</b>					
<b>Wholesale:</b>	Calendar quarter				
<b>Retail:</b>	March and September				

## 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)

This document is issued by Nikko Asset Management New Zealand Limited (Company No. 606057, FSP No. FSP22562), the investment manager of the Nikko AM NZ Investment Scheme, the Nikko AM NZ Wholesale Investment Scheme and the Nikko AM KiwiSaver Scheme. This information is for the use of researchers, financial advisers and wholesale clients. This material has been prepared without taking into account a potential investor's objectives, financial situation or needs and is not intended to constitute financial advice, and must not be relied on as such. Recipients of this document, who are not wholesale investors (in accordance with Schedule 1, Clause 3 Financial Markets Conduct Act 2013), or their duly appointed agent, should consult a Financial Advice Provider and the relevant Product Disclosure Statement. Past performance is not a guarantee of future performance. While we believe the information contained in this presentation is correct at the date of presentation, no warranty of accuracy or reliability is given and no responsibility is accepted for errors or omissions including where provided by a third party. For full details on the fund, please refer to our Product Disclosure Statement on [nikkoam.co.nz](http://nikkoam.co.nz).