

# NIKKO AM CORE EQUITY STRATEGY

Assets are held in the Nikko AM Wholesale Core Equity Fund. The Nikko AM Core Equity Fund (retail) and Nikko AM KiwiSaver Core Equity Fund invest in units in the wholesale fund, which the commentary refers to.

## Market Overview

- Global equity markets mostly posted strong returns for the quarter while Inflation continues to be relatively high in a number of economies. There is a focus on what response Central Banks will take given the high inflation numbers.
- The United States S&P 500 index rose 10.7%, the Japanese Nikkei 225 index lost 2.2%, the UK FTSE 100 index increased 4.2%, the Australian ASX 200 index added 2.1% and the MSCI World index ended the quarter up 7.0%.
- The S&P/NZX 50 index ended the quarter down 1.7%.

## Fund Highlights

- The fund ended down 0.8% for the quarter, 0.9% ahead of the index.
- News flow was high during the quarter with a number of the fund's holdings reporting earnings for the period ended September along with a number of capital raisings.
- During the quarter the fund participated in the initial public offering of Vulcan Steel, the \$330m capital raising by Arvida, the \$779m capital raising by EBOS, Ingenia Communities raising of \$475m, Aristocrat Leisure's \$1.3b raising, Serko's \$85m raising and New Zealand Refining's \$43.5m raising.
- Overweight positions in EBOS and Sky Network Television and an underweight position in Ryman Healthcare added value. Overweight positions in Summerset and Pushpay and an underweight position in Goodman Property 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>	3.43%	-0.79%	3.16%	14.98%	15.46%	16.94%
Benchmark <sup>2</sup>	2.55%	-1.73%	0.20%	14.77%	14.66%	16.07%
Retail <sup>3</sup>	3.34%	-1.02%	2.26%	13.84%	14.17%	15.51%
KiwiSaver <sup>3</sup>	3.36%	-1.02%	1.86%	14.01%		

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 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.

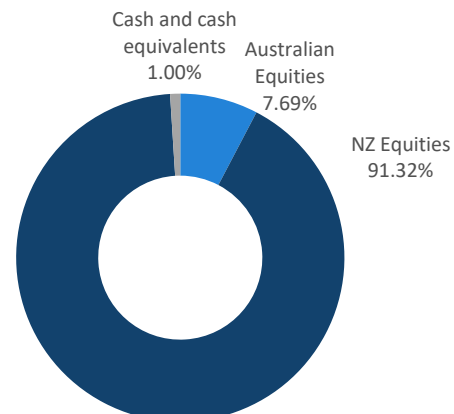
## Overview

The 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	UW	Pushpay Ltd	OW
EBOS Group Ltd	OW	Summerset Group	OW
Sky Network	OW	Goodman Property	NH
OW: overweight; UW: underweight; NH: no holding			
Top 10 Holdings (as at quarter end)			
Fisher & Paykel Healthcare	13.98%	Fletcher Building Ltd	5.95%
Mainfreight Limited	7.32%	EBOS Group Limited	5.69%
Spark New Zealand Ltd	7.13%	Auckland Int. Airport Ltd	5.68%
Infratil Limited	6.62%	Summerset Group	5.20%
Contact Energy Limited	6.35%	Meridian Energy Ltd	4.15%

Sector Allocation (quarter end position)	Fund	Benchmark
Health care	29.39%	27.53%
Utilities	19.50%	18.47%
Industrials	18.94%	22.30%
Communication services	11.16%	9.06%
Consumer discretionary	5.03%	2.84%
Information technology	4.01%	2.09%
Real estate	3.22%	9.32%
Consumer staples	3.12%	4.64%
Financials	2.00%	2.37%
Energy	1.87%	1.38%
Cash and cash equivalents	1.00%	0.00%
Materials	0.76%	0.00%
<b>Number of holdings</b>	<b>37</b>	<b>50</b>

## Market Commentary

Despite the rapid spread of the Omicron COVID-19 variant, global equity markets mostly posted strong returns for the quarter. Inflation continues to be relatively high in a number of economies and as a result there is a focus on the response from Central Banks. The Reserve Bank of New Zealand increased the official cash rate (OCR) twice over the quarter taking the OCR from 25 basis point to 75 basis points. Company results announced during the quarter highlighted cost pressures being faced, in particular those related to wages or those impacted by constrained supply chains.

## Fund Commentary

The fund ended the quarter down 0.8%, 0.9% ahead of the index return. The largest positive contributors to relative return were overweight positions in **EBOS (EBO)** and **Sky Network Television (SKT)** and an underweight position in **Ryman Healthcare (RYM)**. EBO raised \$779m to fund the acquisition of a medical device distribution business and also announced a strong trading update. EBO ended the quarter up 16.7%. SKT jumped 37.8% after upgrading earnings guidance and announcing the sale of its property in Mt Wellington. RYM's result was a little disappointing with COVID-19 impacting on unit delivery and cost inflation also impacting on the result. RYM ended the quarter down 18.3%.

The largest negative contributors to relative return were overweight positions in **Summerset (SUM)** and **Pushpay (PPH)** and a zero holding in Goodman Property (GMT). A number of retirement businesses reported earnings during the quarter which highlighted increasing costs, in particular for staff. This, along with some negative sentiment around the housing market outlook saw SUM fall 9.9%. PPH dropped 28.7% after a disappointing result and downgrading its earnings guidance while GMT rose 7.3% as industrial property continues to see good revaluation gains.

Key portfolio changes during the quarter included adding **Vulcan Steel (VSL)**, **Arvida (ARV)** and **Serko (SKO)** through their capital raisings to the portfolio. Positions in **New Zealand Refining (NZR)**, **Ingenia Communities (INA)**, **Aristocrat Leisure (ALL)** and EBO were added to through their respective capital raisings. Positions in PPH, **Restaurant Brands (RBD)**, **Pacific Edge (PEB)**, **Spark (SPK)**, **Fletcher Building (FBU)** and RYM were increased. Positions in **Z Energy (ZEL)**, **Meridian Energy (MEL)**, **Centuria Industrial REIT (CIP)**, **Scales (SCL)** and **Sky City Entertainment (SKC)** were reduced. Sydney Airport was exited completely.

(**Bold** denotes stocks held in the portfolio)

## Key Fund Facts

<b>Distributions</b>		<b>Estimated annual fund charges (incl. GST)</b>	
Wholesale fund:	Calendar quarter.	Wholesale:	Negotiated outside of fund
Retail fund:	March and September	Retail:	0.95%, refer PDS for more details
KiwiSaver fund:	Does not distribute	KiwiSaver:	0.95%, refer PDS for more details.
<b>Hedging</b>	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.	<b>Buy / Sell spread</b>	<b>Strategy size</b>
		0.29% / 0.29%	\$424.5m
<b>Exclusions</b>	Securities that conduct activities listed on the Schedule to Cluster Munitions Prohibition Act 2009. Tobacco manufacturers.	<b>Strategy Launch</b>	October 2007
<b>Restrictions</b>	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 <a href="https://www.nikkoam.co.nz/invest/retail">https://www.nikkoam.co.nz/invest/retail</a> .		

**Compliance** The wholesale fund complied with its investment mandate and trust deed during the quarter.

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