

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 were volatile over the quarter, initially selling off aggressively over January before drifting generally down over February. This occurred as markets fixated on firstly COVID-19, then inflation concerns, company earnings and the invasion of Ukraine.
- Somewhat surprisingly, even with the war in Ukraine confronting markets and the resulting oil (and other commodities) spiking, plus central banks acknowledging inflationary concerns, markets generally rallied in March.
- NZ 10-yr Government Bond sold off from 2.39% to 3.23% in response to the inflation outlook.
- Overall for the quarter, the United States S&P 500 index fell 5.0%, the Japanese Nikkei 225 index lost 3.4%, but the UK FTSE 100 index gained 1.8% along with the Australian ASX 200 index which rose 2.2%. The MSCI World index ended the quarter down 4.8%.

Fund Highlights

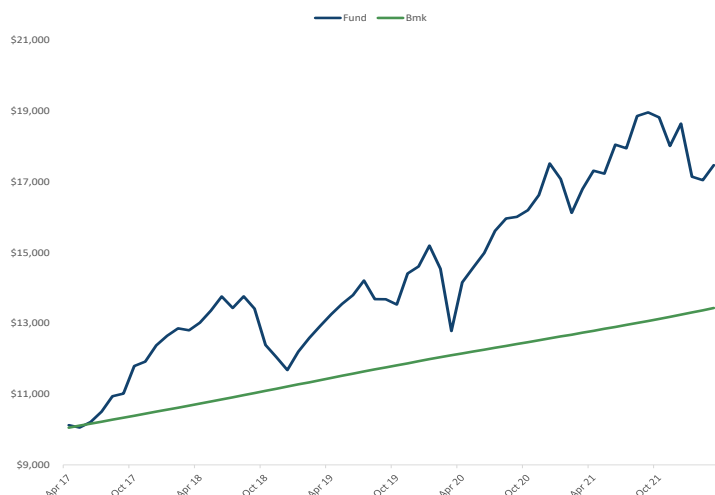
- The fund ended the quarter down 6.3%.
- A number of the fund's holdings reported earnings results for the period ending December.
- Positions in Spark, Westpac and Z Energy added value.
- Positions Summerset, Fisher & Paykel Healthcare and Ingenia detracted value.

Performance

	One month	Three months	One year	Three years (p.a)	Five years (p.a)	Ten years (p.a)
Wholesale ¹	2.48%	-6.29%	4.01%	10.57%	11.81%	15.39%
Benchmark ²	0.50%	1.41%	5.48%	5.64%	6.08%	6.87%
Retail ³	2.43%	-6.51%	1.80%	8.84%	9.83%	12.86%
NZSE50 ⁴	1.36%	-6.85%	-2.90%	7.91%	11.93%	14.41%

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

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.

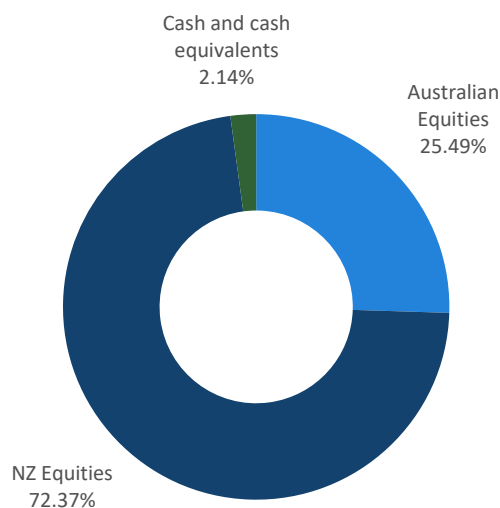
Overview

The Concentrated Equity Fund is a collection of the portfolio manager's highest conviction investment ideas to achieve capital appreciation. The typical number of stocks in the portfolio is circa 15.

Objective

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

Asset Allocation



Contribution to Performance (quarter)	
What Helped:	What Hurt:
Spark NZ	Fisher & Paykel Healthcare
Westpac Banking Corp	Ingenia Communities
Z Energy	Summerset Group

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

Top 10 Holdings			
Fisher & Paykel Healthcare	11.13%	Ingenia Communities	6.84%
Infratil Limited	11.09%	Aristocrat Leisure Ltd	6.37%
Contact Energy Limited	9.29%	Summerset Group	5.51%
Spark New Zealand Ltd	8.02%	Waypoint REIT	5.41%
EBOS Group Limited	7.26%	NEXTDC Ltd	5.14%
Number of holdings			17

Market Commentary

Global markets much like their home domiciles, are all in different phases of dealing with or responding to COVID-19 variants and economic activity, quantitative easing unwind and inflationary concerns, hence market returns are varied. 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. With company results concluded, our focus turned to assessing cost pressures and pricing power together with the impacts of constrained supply chains. The market and Nikko are also highly focused on 'reopening beneficiaries'.

Fund Commentary

The fund ended the quarter down 6.3%. The largest positive contributors to return were positions in **Spark (SPK)**, **Westpac (WBC)** and **Z Energy**. SPK up 5.1%, having delivered a robust 1H result. Of note was the encouraging trends within mobile, with revenue up alongside material margin expansion. The market is also interested in the prospect of a partial sale of their passive mobile towers. WBC up 13.5%, bouncing strongly from its recent low. The market is anticipating improved performance via better net interest margin given the period of rising interest rates ahead. Assisted by their current position of financial strength. ZEL up 5.5%, supported by the Ampol takeover offer and necessary milestones being reached. Shareholders voted in favour of the deal, the acquirer was able to find a buyer for their NZ assets and there was no objection from the takeover panel.

The largest negative contributors to return were positions in **Fisher & Paykel Healthcare (FPH)**, **Ingenia (INA)**, and **Summerset (SUM)**. FPH down 25.7%, after lower-than-expected earnings guidance cast a question mark over its prospects post-pandemic. It seems that hospital revenue is going to be less material in 2H than expected, while cost pressures challenge profit margins. SUM down 13.5%, residential market sentiment has been challenged, driven by several factors serving to place some pressure on retirement village operators. The RBNZ raised the official cash rate for the first time in seven years. The RBNZ raised the official cash rate for the first time in seven years, in addition there was a COVID-19 related drop in nationwide home sales, and downward net migration trends. SUM delivered a robust result, with strong growth in new sale and resale gains, however somewhat offset by higher expenses. INA down 17.8%, with the company's 1H result revealing lower new home settlements than expected, in addition to lockdowns impacting NSW and Victorian holiday park assets. The company remains confident and guides to a materially stronger 2H.

During the quarter we added a new position **Fletcher Building (FBU)**. Positions in **Fisher & Paykel Healthcare (FPH)**, **Pushpay (PPH)**, and **Waypoint (WPR)** were increased, while positions in **Skycity (SKC)**, **Z Energy (ZEL)** and **Summerset (SUM)** were reduced. (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	\$100.7m
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 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

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