

Factsheet 31 August 2022

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 were mixed during August.
- Over the month the US 10-year bond yield rose 54bps, the New Zealand 10-year yield increased 56bps while the Australian 10-year ended up 54bps.
- The United States S&P 500 index fell 4.2%, the Japanese Nikkei 225 index rose 1.0%, the UK FTSE 100 index lost 1.9%, the Australian ASX 200 index gained 1.2% and the MSCI World index ended the month down 2.3%.
- The S&P/NZX 50 index ended the month up 1.0%.

Fund Highlights

- The fund ended the month up 1.4% which was 0.5% ahead of the index.
- A number of New Zealand and Australian companies reported results for the period ended June.
- Overweight positions in Infratil, Channel Infrastructure, Fletcher Building plus a nil holding in Precinct Properties added value. Overweight positions in NextDC and Restaurant Brands, together with an underweight position in A2 Milk detracted from value.

Performance

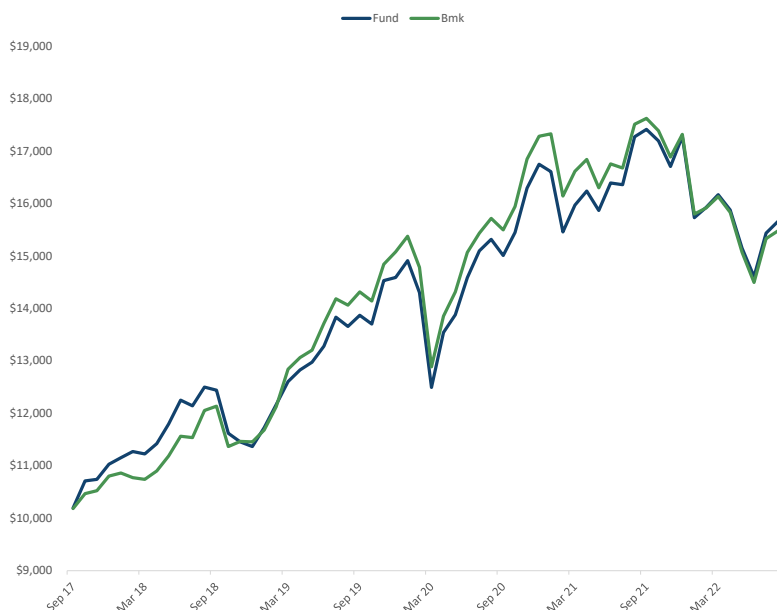
	One month	Three months	One year	Three years (p.a)	Five years (p.a)	Ten years (p.a)
Wholesale ¹	1.44%	3.34%	-9.35%	4.66%	9.38%	14.51%
Benchmark ²	0.96%	2.70%	-11.62%	3.25%	9.13%	13.41%
Retail ³	1.35%	3.07%	-10.15%	3.76%	8.29%	13.15%

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^{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.

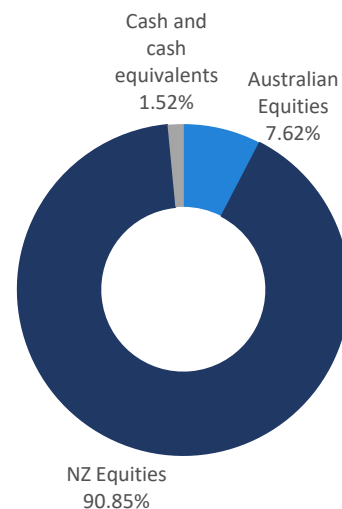
Overview

The 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 (month)			
What Helped:		What Hurt:	
Infratil Ltd	OW	NEXTDC Ltd	OW
Channel Infrastructure Ltd	OW	A2 Milk Co. Ltd	UW
Fletcher Building	OW	Restaurant Brands NZ Ltd	OW
OW: overweight; UW: underweight; NH: no holding			
Top 10 Holdings (% of fund)			
Spark New Zealand Ltd	9.73	Contact Energy Limited	6.85
Fisher & Paykel Healthcare	8.34	EBOS Group Limited	5.93
Infratil Limited	8.31	Fletcher Building Ltd	5.32
Auckland Int. Airport Ltd	6.89	Meridian Energy Ltd	4.18
Mainfreight Limited	6.85	Summerset Group Ltd	3.61

Sector Allocation (% of fund)	Fund	Benchmark
Health care	23.04%	22.16%
Utilities	21.72%	21.81%
Industrials	19.06%	22.31%
Communication services	14.45%	12.08%
Consumer discretionary	5.26%	2.98%
Consumer Staples	4.18%	5.31%
Information technology	4.11%	1.80%
Real estate	3.50%	9.24%
Cash and cash equivalents	1.52%	0.00%
Energy	1.33%	0.00%
Materials	1.32%	0.00%
Financials	0.51%	2.31%
Number of holdings	35	50

Market Commentary

Global equity markets were mixed during August. This was partly driven by the Australasian earnings season, in addition to bond yield movements. While company earnings results were generally as expected, labour availability, increasing wages and rising interest rates are the key issues that companies are having to manage. Central banks continue their battle against inflation with cash rate hikes. Both the Reserve Bank of Australia and Reserve Bank of New Zealand increased their official cash rates by 50 basis points. Bond yields continue to be volatile with 10-year government bond yields for New Zealand, Australia and the United States up 56bps, 54bps and 54bps respectively. Yields have been supportive of equity markets.

Fund Commentary

The fund ended the month up 1.4% and 0.5% ahead of the index return. The largest positive contributors to relative return were overweight positions in **Infratil (IFT)**, **Channel Infrastructure (CHI)** and **Fletcher Building (FBU)**. IFT up 8.0%, announced new capital and co-investor for Longroad Energy, a deal which values the business at US\$2bn, representing a material lift against prior estimates. In addition, IFT held their annual general meeting and reaffirmed full-year earnings guidance. CHI continues to gain investor support post its transition to an import terminal and rose 11.6%. FBU continued its recent rally following up their investor day comments with a high-quality result and supportive comments for their FY23 earnings bridge.

The largest negative contributors to relative return were overweight positions in **NEXTDC (NXT)** and **Restaurant Brands (RBD)** and an underweight position in **A2 Milk (ATM)**. NXT lost 10.5% despite beating earning expectations albeit with several below the line adjustments. While the demand outlook and secular growth story remains strong, the business is likely to be challenged with construction delays in FY23. RBD lost 11.1% after providing their 2Q trading update. Despite challenging conditions, the company delivered robust sales revenue growth of 10.2% for the second quarter and 8.2% for the first half of FY23. However, profit guidance for the half disappointed due to significant cost inflation pressuring margins. ATM provided the market with a positive outlook statement and announced a \$150m on market buyback of stock. ATM rose 24.9%.

Portfolio changes during the month included adding to our position in **Serko (SKO)** and reducing **Fisher & Paykel Healthcare (FPH)**. (**Bold** denotes stocks held in the portfolio).

Key Fund Facts

Distributions	Estimated annual fund charges (incl. GST)		
Wholesale fund: Calendar quarter.	Wholesale: Negotiated outside of fund		
Retail fund: March and September	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	Strategy size	Strategy Launch
	0.29% / 0.29%	\$354.3m	Oct 2007
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 month.

Contact Us www.nikkoam.co.nz | nzenquiries@nikkoam.com

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