

Factsheet 31 August 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 month 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 1.8%, the Japanese Nikkei 225 declined 1.7%, the UK FTSE 100 index dropped 3.4%, the Australian ASX 200 index lost 0.7% and the MSCI World index ended the month down 2.1% (in local terms).
- The S&P/NZX 50 index had a tough month ending down 4.2%.

## Fund Highlights

- The fund ended the month down 3.6%, 0.6% ahead of the index return.
- August was busy with company news flow as results for the period ending June were released.
- Overweight positions in Infratil, NextDC and Contact Energy added value. An overweight position in Restaurant Brands and underweight (nil) positions in Freightways and Air New Zealand 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> | -3.58%    | -1.71%       | 2.39%    | 1.53%             | 5.10%            | 12.24%          |
| Benchmark <sup>2</sup> | -4.16%    | -2.10%       | 0.43%    | -0.37%            | 5.22%            | 10.92%          |
| Retail <sup>3</sup>    | -3.64%    | -1.95%       | 1.45%    | 0.65%             | 4.12%            | 10.96%          |

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,**  
Co-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.

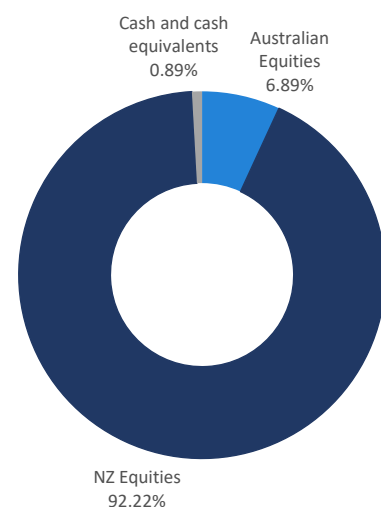
## Overview

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 (Month)              |       |                   |      | Sector Allocation (% of fund) | Fund      | Benchmark |
|-------------------------------------------------|-------|-------------------|------|-------------------------------|-----------|-----------|
| <b>What Helped:</b>                             |       | <b>What Hurt:</b> |      | Utilities                     | 26.04     | 24.32     |
| Infratil                                        | OW    | Restaurant Brands | OW   | Health care                   | 25.98     | 23.50     |
| NextDC                                          | OW    | Freightways       | NH   | Industrials                   | 16.28     | 21.66     |
| Contact Energy                                  | OW    | Air New Zealand   | NH   | Communication services        | 15.21     | 11.61     |
| OW: overweight; UW: underweight; NH: no holding |       |                   |      | Consumer discretionary        | 4.17      | 2.47      |
| <b>Top 10 Holdings (% of fund)</b>              |       |                   |      | Consumer staples              | 3.88      | 4.10      |
| Fisher & Paykel Healthcare                      | 11.39 | Meridian Energy   | 5.00 | Real estate                   | 2.86      | 8.41      |
| Infratil                                        | 10.34 | Mainfreight       | 4.97 | Information technology        | 2.04      | 0.65      |
| Spark New Zealand                               | 10.18 | EBOS Group        | 4.96 | Materials                     | 1.43      | 0.42      |
| Auckland International Airport                  | 8.05  | Ryman Healthcare  | 4.44 | Energy                        | 1.24      | 0.34      |
| Contact Energy                                  | 7.81  | A2 Milk           | 3.88 | Cash and cash equivalents     | 0.89      | 0.00      |
|                                                 |       |                   |      | Financials                    | 0.00      | 2.52      |
|                                                 |       |                   |      | <b>Number of holdings</b>     | <b>29</b> | <b>50</b> |

## Market Commentary

Global equity markets struggled over the month as sticky inflation saw bond yields spike and central banks push out the timing of interest rate cuts. 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. With the New Zealand general election around six weeks away we are getting policy releases from the political parties. One policy that is seems likely to be put in place regardless of who wins is the removal of depreciation for tax purposes from commercial buildings. This has led to the listed property vehicles selling off over August.

## Fund Commentary

The largest positive contributors to the funds relative return were overweight positions in **Infratil** (IFT), **NextDC** (NXT) and **Contact Energy** (CEN). At its Annual Shareholder Meeting IFT advised that they expect earnings to be towards the top of its previous guidance. IFT ended the month up 1.4%. While announcing higher than expected capital expenditure expectations, NXT rose 6.2% (in AUD) as the outlook for data centres and signing customer contracts is encouraging. CEN added 0.7% 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 underweight (nil) positions in Freightways (FRW) and Air New Zealand (AIR) and an overweight position in **Restaurant Brands** (RBD). FRW's result showed its New Zealand business impacted by costs and a sluggish economy while its Australian business was somewhat more resilient. FRW added 1.8% over the month. As expected, AIR's result was very strong and also announced a 6 cents per share special dividend. AIR ended the month up 1.9%. RBD fell 31.1% after downgrading earnings expectations and then delivering a half year result that was less than the market expected.

Key portfolio changes during the month included adding to our position in **Auckland International Airport** (AIA), **Fisher & Paykel Healthcare** (FPH), **Fletcher Building** (FBU) and **Meridian Energy** (MEL). Positions were reduced in IFT, NXT, CEN, **Aristocrat Leisure** (ALL) and **Mainfreight** (MFT).

(**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        |                      |                        |
| <b>Foreign currency</b> 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> | <b>Strategy Launch</b> |
|                                                                                                                                                                                                                                                                                     |                     | 0.29% / 0.29%                                    | \$328.9m             | Oct 2007               |
| <b>Exclusions:</b> Controversial weapons (including by not limited to cluster munitions and chemical, biological and nuclear weapons).                                                                                                                                              |                     |                                                  |                      |                        |
| <b>Restrictions:</b> 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 <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 month.

## 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 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. 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).