

Nikko AM Core Equity Strategy

Monthly Update 29 February 2024

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 continued their recent strong run with inflation moving in the right direction, giving comfort that rate increases were at an end.
- The United States S&P 500 index rose 5.2%, the Japanese Nikkei 225 jumped 7.9%, the UK FTSE 100 index was unchanged, the Australian ASX 200 index increased 0.8% and the MSCI World index ended the month up 4.3% (in local terms).
- The S&P/NZX 50 index ended the month down 1.1%.

Fund Highlights

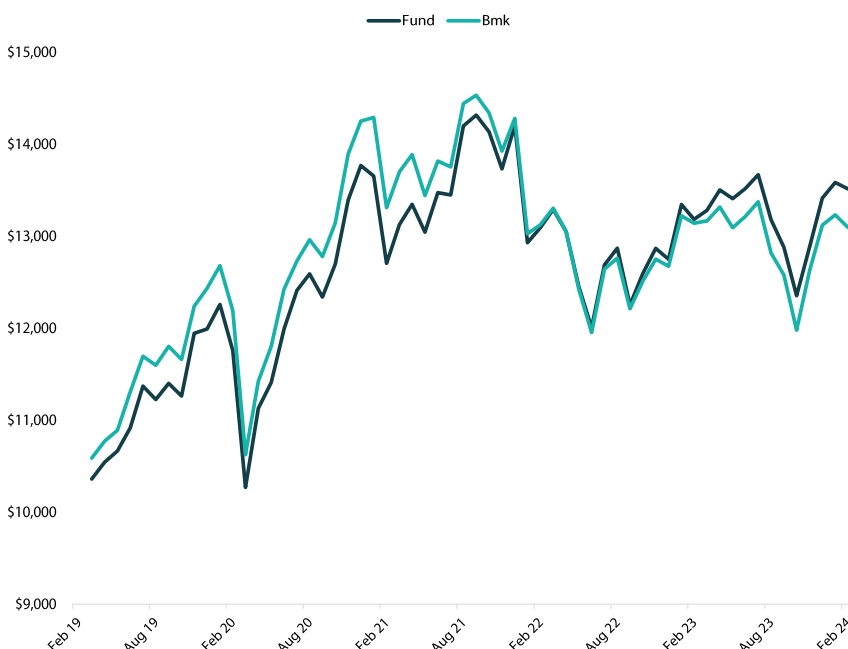
- The fund ended the month down 0.5%, 0.5% ahead of the index return.
- It was a busy month with a number of companies reporting earnings for the period ending December and others updating their earnings guidance for the March period.
- Overweight positions in NextDC and Ingenia Communities and an underweight position in Kathmandu added value.
- Overweight positions in Ryman Healthcare and Spark and an underweight position in Gentrack detracted from value.

Performance

	One month	Three months	One year	Three years (p.a.)	Five years (p.a.)	Ten years (p.a.)
Wholesale¹	-0.51%	4.93%	2.51%	2.08%	6.21%	11.33%
Benchmark²	-1.05%	3.75%	-0.35%	-0.55%	5.54%	10.04%
Retail³	-0.58%	4.66%	1.57%	1.16%	5.20%	10.09%

1. Returns are before tax and before the deduction of fees and including tax credits (if any).
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

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.

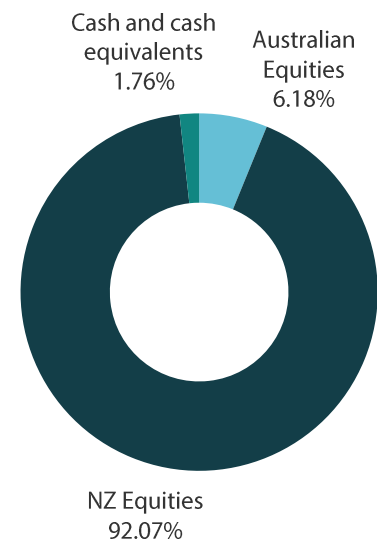
Overview

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.

Asset Allocation



Attribution To Performance				Sector Allocation (% of fund)		Fund	Benchmark
What Helped:		What Hurt:		Industrials	26.19	28.92	
NextDC	OW	Ryman Healthcare	OW	Health care	25.65	22.76	
Ingenia Communities	OW	Gentrack	NH	Utilities	16.33	17.82	
Kathmandu	NH	Spark	OW	Communication services	15.25	11.22	
OW: overweight; UW: underweight; NH: no holdings				Consumer staples	4.15	4.72	
Top 10 Holdings (% of fund)				Consumer discretionary	3.54	2.16	
Fisher & Paykel Healthcare	11.71	Meridian Energy	5.60	Real estate	2.50	8.04	
Infratil	10.41	Mainfreight	4.60	Information technology	2.41	1.31	
Spark New Zealand	9.95	EBOS	4.57	Cash and cash equivalents	1.76	0.00	
Auckland International Airport	9.06	A2 Milk	4.15	Energy	1.33	0.31	
Contact Energy	7.75	Summerset	4.02	Materials	0.89	0.45	
				Financials	0.00	2.29	
				Number of holdings	29	50	

Market Commentary

After a very strong end to 2023 and a solid January, equity markets continued their move higher - assisted by inflation in most economies moving in the right direction giving comfort that interest rate increases were at an end. Despite some economists picking that the Reserve Bank of New Zealand would increase our Official Cash Rate, the RBNZ left the OCR at 5.5% when they released their Monetary Policy Statement late in February. In fact, the RBNZ's statement was more dovish than expected which resulted in bond yields moving modestly lower. Company earnings results were also influential in market returns. New Zealand had quite a divergent set of results and associated stock price moves with a high of +20.8% for Gentrack through to -25.7% for Kathmandu in the S&P/NZX 50 index. Out of the 50 stocks there were 18 positive returns and 32 negative returns.

Fund Commentary

The largest positive contributors to the fund's relative return were overweight positions in **NextDC** (NXT) and **Ingenia Communities** (INA) and an underweight position in Kathmandu (KMD). NXT jumped 25.9% (in AUD) after announcing a good result but more importantly outlining a strong demand outlook driven by cloud and Artificial Intelligence data storage requirements. INA reported a strong result for the first half of its financial year and ended the month 9.2% (in AUD) higher. KMD released a disappointing first half trading update with sales across all divisions down materially and as a result fell 25.7%.

The largest negative contributors to relative return were from overweight positions in **Ryman Healthcare** (RYM) and **Spark** (SPK) and an underweight position in Gentrack (GTK). RYM announced a downgrade to their guidance for the period ending March with new unit sales in several villages running behind expectations. The issue is put down to not having the amenities that come along with the main building not being available, which slows sales. There was heavy offshore selling and RYM ended the month down 18.6%. After performing well in January, SPK pulled back in February and was not helped by index fund selling which saw SPK down 4.6%. GTK announced an investment in an Australian based technology company and energy retailer which resulted in investors pushing the stock up 20.8% over the month.

Key portfolio changes during the month included adding to our positions in **Auckland International Airport** (AIA), **Channel Infrastructure** (CHI) and RYM. Positions in **NXT**, **A2 Milk** (ATM), **Fletcher Building** (FBU) and **Fisher & Paykel Healthcare** (FPH) were reduced.

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

Key Fund Facts

Estimated annual fund charges (incl. GST)		Exclusions:	Controversial weapons (including by not limited to cluster munitions and chemical, biological and nuclear weapons).	Strategy Launch:	October 2007
Wholesale:	Negotiated outside of the unit price.	Restrictions:	Tobacco stocks, fossil fuels. For more information, please refer to the Statement of Investment Policy and Objectives (SIPO) on our website https://www.nikkoam.co.nz/invest/retail .	Strategy size:	\$313.9m
Retail:	0.95%, refer to PDS for more details.			Buy / Sell spread:	0.29%/0.29%
Distributions					
Wholesale:	Calendar quarter				
Retail:	March and September				

Compliance

The wholesale fund complied with its investment mandate and trust deed during the month.

Contact Us

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