

Nikko AM Core Equity Strategy

Monthly Update 31 May 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 bounced back from a relatively weak performance in April with a solid performance in May as company earnings results gave support to the market.
- The United States S&P 500 index rose 4.8%, the Japanese Nikkei 225 gained 0.2%, the UK FTSE 100 index increased 1.6%, the Australian ASX 200 index added 0.9% and the MSCI World index ended the month up 3.7% (in local terms).
- The S&P/NZX 50 index ended the month down 0.8%.

Fund Highlights

- The fund ended the month down 0.9%, 0.1% behind the index return.
- Earnings guidance updates and company results for the period ended 31 March dominated news flow and share price performance.
- A deal to keep the Tiwai Point Aluminium smelter open for another 20 years was agreed which provided a boost to Mercury, Meridian Energy and Contact Energy who will supply electricity to the smelter.
- Underweight positions in Tourism Holding and Skellerup and an overweight position in Contact Energy added value. Overweight positions in Sky Network Television, Summerset and Spark detracted from value.

Performance

	One month	Three months	One year	Three years (p.a.)	Five years (p.a.)	Ten years (p.a.)
Wholesale¹	-0.88%	1.37%	2.17%	1.65%	5.13%	10.97%
Benchmark²	-0.75%	1.31%	1.31%	-0.44%	4.03%	9.72%
Retail³	-0.94%	1.13%	1.20%	0.71%	4.15%	9.73%

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 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.

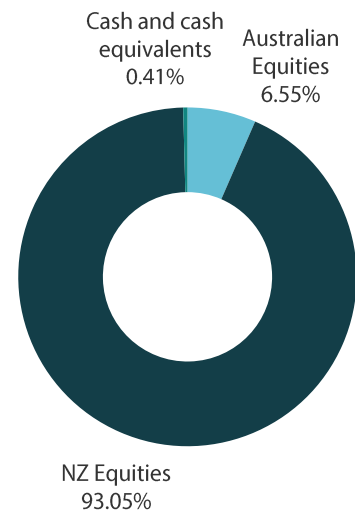
Overview

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				Sector Allocation (% of fund)			Fund	Benchmark
What Helped:		What Hurt:		Industrials		26.76%	27.46%	
Tourism Holding	NH	Sky Network Television	OW	Health care		26.70%	23.80%	
Skellerup	NH	Summerset	OW	Utilities		18.55%	19.16%	
Contact Energy	OW	Spark	OW	Communication services		12.87%	9.48%	
OW: overweight; UW: underweight; NH: no holdings				Consumer staples		4.86%	5.70%	
Top 10 Holdings (% of fund)				Consumer discretionary		3.07%	1.91%	
Fisher & Paykel Healthcare	13.99	Meridian Energy	6.61	Real estate		2.10%	7.98%	
Infratil	10.32	A2 Milk	4.86	Information technology		2.04%	1.49%	
Auckland International Airport	9.49	Mainfreight	4.65	Energy		1.25%	0.33%	
Contact Energy	8.35	EBOS	4.38	Materials		0.88%	0.42%	
Spark	8.16	Mercury	3.59	Financials		0.51%	2.27%	
				Cash and cash equivalents		0.41%	0.00%	
				Number of holdings		30	50	

Market Commentary

Company earnings was a dominate factor in global equity market performances over May, along with a recovery of a weaker performance in April. The tech heavy Nasdaq index was a strong performer, up 6.9% as the likes of Nvidia, Apple, Meta and Microsoft continued to push higher on good results, up 26.9%, 12.9%, 8.5% and 6.6% respectively over the month. In New Zealand the Reserve Bank's Monetary Policy statement had a hawkish tone, pushing out the timing of rate cuts to the back end of 2025 and also noting that they considered raising the Official Cash Rate. The New Zealand government delivered its budget which had no material impact on stocks or the market in general.

Fund Commentary

The largest positive contributors to the fund's relative return were underweight positions (nil holdings) in Tourism Holding (THL) and Skellerup (SKL) and an overweight position in **Contact Energy** (CEN). THL fell 35.5% after downgrading earnings guidance by more than 30% due to weak vehicle sales volumes and margins. SKL was dragged down on no specific news other than small cap NZ stocks performing poorly over the month. SKL ended the period down 21.6%. CEN rose 6.3% as it benefited from the announcement that the Tiwai Point Aluminium smelter would stay open for another 20 years.

The largest negative contributors to relative return were from overweight positions in **Sky Network Television** (SKT), **Summerset** (SUM) and **Spark** (SPK). As a number of consumer discretionary stocks downgraded, SKT was impacted by negative sentiment and ended the month down 15.8%. SUM fell 14.4%, mainly impacted by a seller of more than 35 million RYM shares weighing on the retirement sector stocks. SPK downgraded earnings guidance by ~4% but did maintain its dividend guidance which puts the stock on an attractive yield. The earnings downgrade led to SPK falling 12.5% over the month.

Key portfolio changes during the month included adding to our position in **EBOS** (EBO) as it was sold down due to its removal from a MSCI index. We also added to our position in Mercury (MCY). Positions in **A2 Milk** (ATM), **Infratil** (IFT), SKT and **Fletcher Building** (FBU) were reduced. The funds position in Radius Residential Care (RAD) was divested.

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

Key Fund Facts

Estimated annual fund charges (incl. GST)		Exclusions:	Controversial weapons (including but 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:	\$271.6m
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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