

Nikko AM Core Equity Strategy

Monthly Update 31 July 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 had mixed performance over the month as rate cuts and the potential for more rate cuts were countered by a rotation away from tech related stocks.
- The United States S&P 500 index rose 1.1%, the Japanese Nikkei 225 fell 1.2%, the UK FTSE 100 index increased 2.5%, the Australian ASX 200 index gained 4.2% and the MSCI World index ended the month down 0.2% (in local terms).
- The S&P/NZX 50 index ended the month up 5.9%.

Fund Highlights

- The fund ended the month up 5.3%, 0.6% behind the index return.
- A takeover bid was received for Arvida Group at \$1.70 which compares to where the stock was trading prior to the bid at \$1.03.
- Overweight positions in Ryman Healthcare, Summerset and Arvida added value. Overweight positions in Infratil and Contact Energy and an underweight position in Port of Tauranga detracted from value.

Performance

	One month	Three months	One year	Three years (p.a.)	Five years (p.a.)	Ten years (p.a.)
Wholesale¹	5.35%	3.48%	4.64%	2.07%	4.69%	11.42%
Benchmark²	5.90%	3.85%	3.78%	0.31%	3.48%	10.24%
Retail³	5.23%	3.20%	3.61%	1.12%	3.75%	10.18%

- Returns are before tax and before the deduction of fees and including tax credits (if any).
- Benchmark: S&P / NZX 50 Index Gross (with Imputation Credits). No tax or fees.
- Returns are before tax and after the deduction of fees and expenses and including tax credits (if any).

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.

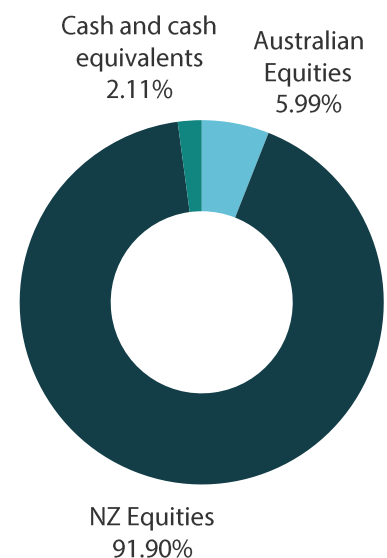
Objective

The fund aims to outperform the benchmark return by 3% per annum before fees, expenses and taxes over a rolling three-year period.

Five-Year Cumulative Performance, \$10,000 invested^{1,2}



Asset Allocation



Attribution To Performance				Sector Allocation (% of fund)		
What Helped:		What Hurt:		Health care	29.13%	25.65%
Ryman Healthcare	OW	Infratil	OW	Industrials	25.54%	27.68%
Summerset	OW	Contact Energy	OW	Utilities	16.74%	17.68%
Arvida	OW	Port of Tauranga	UW	Communication services	12.59%	9.40%
OW: overweight; UW: underweight; NH: no holdings				Consumer staples	4.75%	5.56%
Top 10 Holdings (% of fund)				Consumer discretionary	2.68%	1.79%
Fisher & Paykel Healthcare	14.20	Meridian Energy	6.12	Real estate	2.20%	7.71%
Infratil	10.41	EBOS	5.22	Cash and cash equivalents	2.11%	0.00%
Auckland International Airport	8.11	A2 Milk	4.75	Information technology	1.71%	1.56%
Spark New Zealand	7.97	Mainfreight	4.52	Energy	1.42%	0.29%
Contact Energy	7.11	Summerset	3.92	Materials	0.62%	0.36%
				Financials	0.50%	2.32%
				Number of holdings	30	50

Market Commentary

The Reserve Bank of New Zealand (RBNZ) Official Cash Rate (OCR) decision represented the major market-moving event in July. There was no change to the OCR at 5.5% but the accompanying commentary surprised the market by being a lot more dovish than had been anticipated. Meaning the stance of the RBNZ tilted more toward stimulating economic growth than expected and as a result, increased the probability of an interest rate cut sooner than what had been priced into the market. This was positive for the equity market. The RBNZ acknowledged the trend of soft economic indicators and discussed the risk that their prevailing tight monetary policy (high interest rate) has had a more pronounced effect on activity than expected, feeding through to consumers and domestic demand more broadly. They noted their belief that inflation will return sustainably to within the 1-3% target range over the second half of 2024 and that their restrictive policy will be tempered over time consistent with the expected decline in inflation pressures. This was a significant turn of events. The RBNZ increased interest rates at an unprecedented pace and subsequently held the rate steady since May 2023 leading to considerable pressure in the economy. The market has been keenly anticipating the commencement of the monetary policy easing cycle, the reduction in rates and an alleviation of the pressure. The OCR event shifted expected timing of the first cut from February 2025 to anytime starting from the next meeting and the resulting market action was extreme. In terms of the equity market, the S&P/NZX 50 index closed 5.9% higher. On an equal weight basis, the market was up 10% as small and mid-sized companies performed better than their larger counterparts. Among the 50 index members, 43 delivered positive returns.

Fund Commentary

The largest positive contributors to the fund's relative return were overweight positions in **Ryman Healthcare (RYM)**, **Summerset (SUM)** and **Arvida (ARV)**. These three retirement sector companies initially performed well on the back of a more dovish than expected Monetary Policy Review statement from the RBNZ. The retirement sector performed very well in the second half of the month following a takeover offer for ARV. The takeover offer is priced at \$1.70 per share which compares to where the stock was trading prior to the bid at \$1.03 per share. ARV ended the month up 74.2% while RYM and SUM gained 27.3% and 17.9% respectively.

The largest negative contributors to relative return were from overweight positions in **Infratil (IFT)** and **Contact Energy (CEN)** and an underweight position in **Port of Tauranga (POT)**. Following its capital raising and strong performance in June, IFT gave up some of last month's gain ending the month down 3.75%. CEN fell 5.6% after disappointing the market with lower-than-expected earnings guidance for financial year 2025. Dividend growth for the next couple of years will also be lower than market expectations. After a number of weak months of performance which saw the stock price hit its lowest point in a number of years, POT jumped 17.0% during the month as investors became more comfortable with earnings growth in the years ahead. Key portfolio changes during the month included adding to our positions in **Channel Infrastructure (CHI)**, **Resmed (RMD)**, RYM, **Sky Network Television (SKT)** and **Worley (WOR)**. Positions in **Auckland International Airport (AIA)**, CEN, IFT, **NextDC (NXT)** and **Fletcher Building (FBU)** were reduced. A new position was established in POT. (**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). 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 Launch: October 2007
Wholesale:	Negotiated outside of the unit price.		Strategy size: \$274.5m
Retail:	0.95%, refer to PDS for more details.		Buy / Sell spread: 0.29%/0.29%
Distributions	Calendar quarter		
Wholesale:	March and September		
Retail:			

Compliance

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

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