

Nikko AM Core Equity Strategy

Monthly Update 31 August 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 with economic data, rate outlook and earnings results leading to a volatile month.
- The United States S&P 500 index rose 2.3%, the Japanese Nikkei 225 fell 1.2%, the UK FTSE 100 index increased 0.1%, the Australian ASX 200 index gained 0.5% and the MSCI World index ended the month up 1.7% (in local terms).
- The S&P/NZX 50 index ended the month up 0.4%.

Fund Highlights

- The fund ended the month down 0.4%, 0.8% behind the index return.
- The weak economic environment showed up in a number of earnings announcements for companies who released their June period ending results.
- Overweight positions in Channel Infrastructure, Ryman Healthcare and Sky Network Television added value. Overweight positions in Spark and Arcadium Lithium and an underweight position in Precinct Properties detracted from value.

Performance

	One month	Three months	One year	Three years (p.a.)	Five years (p.a.)	Ten years (p.a.)
Wholesale¹	-0.35%	4.04%	8.15%	0.13%	4.89%	11.22%
Benchmark²	0.40%	5.06%	8.72%	-1.18%	3.74%	10.16%
Retail³	-0.41%	3.75%	7.08%	-0.81%	3.95%	9.99%

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).

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 charterholder and holds a Bachelor of Commerce degree from the University of Auckland.

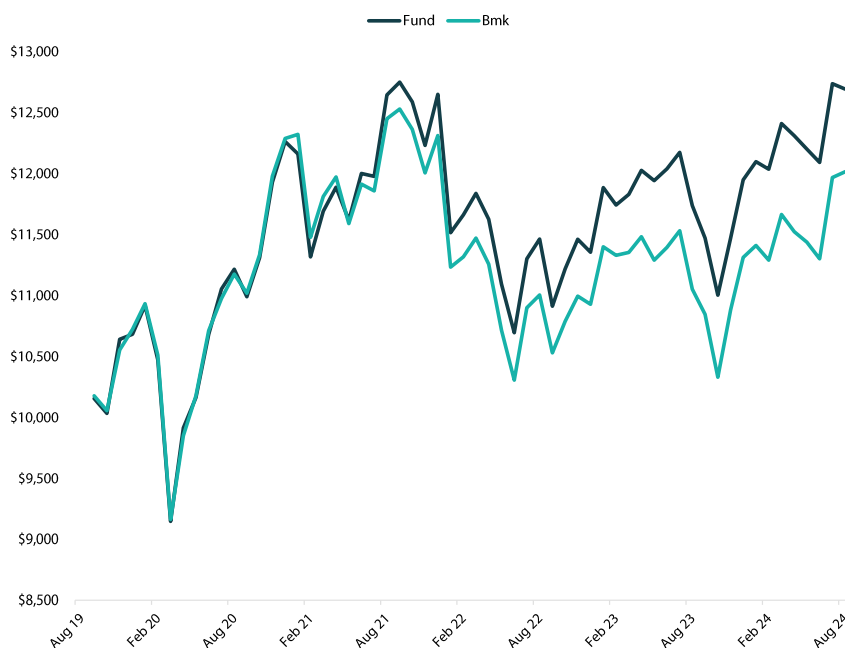
Overview

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.

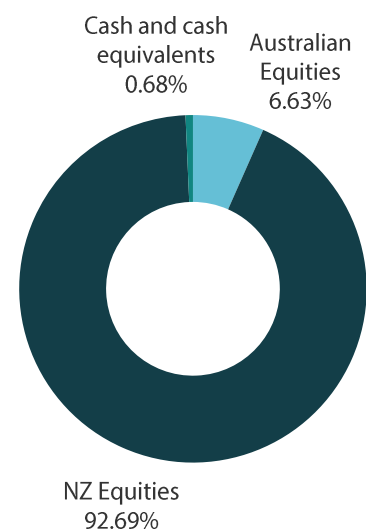
Objective

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

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



Asset Allocation



Attribution To Performance			
What Helped:		What Hurt:	
Channel Infrastructure	OW	Spark	OW
Ryman Healthcare	OW	Arcadium Lithium	OW
Sky Network Television	OW	Precinct Properties	NH

OW: overweight; UW: underweight; NH: no holdings

Top 10 Holdings (% of fund)			
Fisher & Paykel Healthcare	15.67	Meridian Energy	5.98
Infratil	10.70	EBOS	4.98
Auckland International Airport	8.24	Mainfreight	4.85
Contact Energy	7.10	A2 Milk	3.99
Spark New Zealand	6.52	Summerset	3.97

Sector Allocation (% of fund)	Fund	Benchmark
Health care	31.15%	27.27%
Industrials	27.01%	27.87%
Utilities	16.11%	17.06%
Communication services	11.51%	8.56%
Consumer staples	3.99%	4.49%
Real estate	2.71%	8.25%
Consumer discretionary	2.65%	1.77%
Information technology	1.64%	1.61%
Energy	1.52%	0.34%
Cash and cash equivalents	0.68%	0.00
Materials	0.51%	0.38%
Financials	0.51%	2.40%
Number of holdings	31	50

Market Commentary

Weak economic data and the unwind of the carry trade in Japan saw markets sell off aggressively early in the month. More positive economic data came out shortly after which resulted in a remarkably quick turnaround. In the first three days of the month the Japanese Nikkei 225 index fell 19.5%, with one of the days down 12.4%. The following day saw the index recover 10.2% and by the end of the month was only down 1.1%. While not to the same magnitude, other markets also showed large volatility during the month. Along with economic data and the carry trade unwind, company earnings results also pushed returns around. In New Zealand the Reserve Bank followed through on its dovish statement in July and cut the Official Cash Rate by 0.25%. This was accompanied by a much more aggressive rate cut track than was provided in its last update in May. While this was initially rewarded by a move up in the NZX 50 index, the reality of the weak economy showed up in earnings results and the index drifted lower to end the month up 0.4%, down from its intra month high of 2.6%.

Fund Commentary

The largest positive contributors to the fund's relative return were overweight positions in **Channel Infrastructure (CHI)**, **Ryman Healthcare (RYM)** and **Sky Network Television (SKT)**. CHI delivered a solid first half result and fuel volumes are tracking ahead of their expectations. CHI also announced a new fuel storage contract and ended the month up 14.2%. With no stock specific news, RYM was assisted by the cut in the OCR and ended the month up 7.1%. SKT delivered a credible result in light of the tough economic back drop. Importantly they maintained their target of providing a dividend of at least 30cps in 2026. SKT ended the month up 6.7%.

The largest negative contributors to relative return were from overweight positions in **Spark (SPK)** and **Arcadium Lithium (LTM)** and an underweight position in **Precinct Properties (PCT)**. SPK delivered a negative 10% return. The company disappointed the market by providing an earnings result below the bottom-end of their guidance range. Spark have outlined credible ways in which they can improve profitability for FY25 and beyond. In light of weak lithium prices, LTM announced the deferral of several projects. The negative sentiment around lithium prices weighed on LTM and ended the month down 17.4% (in AUD). While PCT announced its result, the interest was around its progress on capital partnerships for several projects. PCT announced it is in exclusive negotiations with a capital partner for its student accommodation project. PCT also announced exclusive negotiations with a major occupier for its planned downtown developments. PCT also benefited from the OCR cut and ended the month up 10.7%

Key portfolio changes during the month included adding to our positions in **A2 Milk (ATM)**, **Contact Energy (CEN)**, **Ingenia Communities (INA)**, **Mainfreight (MFT)**, **Port of Tauranga (POT)**, **Resmed (RMD)** and **Worley (WOR)**. Positions in **CHI**, **Ebos (EBO)**, **Fletcher Building (FBU)**, **Mercury (MCY)**, **RYM**, **SPK** and **Summerset (SUM)** were reduced. (**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.	Retail: 0.95%, refer to PDS for more details.		Strategy size: \$273.7m
Distributions	Calendar quarter	Buy / Sell spread: 0.29%/0.29%	
Wholesale: March and September	Retail:		

Compliance

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

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