

Nikko AM Core Equity Strategy

Monthly Update 30 September 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

- While volatile over the quarter, global equity markets generally posted solid returns for the period as key central banks cut rates.
- The United States S&P 500 index rose 5.5%, the Japanese Nikkei 225 fell 4.2%, the UK FTSE 100 index increased 0.9%, the Australian ASX 200 index gained 7.8% and the MSCI World index ended the quarter up 5.0% (in local terms).
- The S&P/NZX 50 index ended the quarter up 6.4%.

Fund Highlights

- The fund ended the quarter up 5.7%, 0.7% behind the index return.
- The weak economic environment in New Zealand showed up in a number of earnings announcements for companies who released their June period ending results.
- 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.
- The month of August saw several large capital raisings with NextDC raising AU\$550m, Infratil \$1.4b and Fletcher Building \$700m.
- Overweight positions in Summerset, Ryman Healthcare and Sky Network Television added value. Overweight positions in Spark 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	0.71%	5.72%	11.45%	0.09%	4.71%	11.08%
Benchmark²	0.05%	6.37%	10.84%	-1.37%	3.39%	10.04%
Retail³	0.61%	5.44%	10.30%	-0.85%	3.77%	9.86%

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

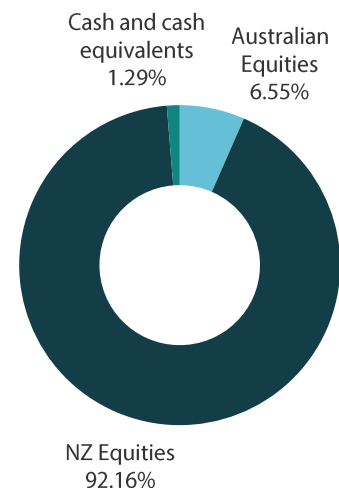
Overview

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			
What Helped:		What Hurt:	
Summerset	OW	Spark	OW
Ryman Healthcare	OW	Contact Energy	OW
Sky Network Television	OW	Port of Tauranga	UW

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

Top 10 Holdings (% of fund)			
Fisher & Paykel Healthcare	15.53	Spark New Zealand	5.39
Infratil	11.36	Mainfreight	4.87
Auckland International Airport	9.29	EBOS	4.65
Contact Energy	7.23	A2 Milk	4.49
Meridian Energy	5.97	Summerset Holdings	4.24

Sector Allocation (% of fund)	Fund	Benchmark
Industrials	29.27%	29.92%
Health care	28.78%	26.63%
Utilities	16.30%	16.61%
Communication services	9.92%	7.72%
Consumer staples	4.49%	4.96%
Real estate	3.29%	7.71%
Consumer discretionary	2.57%	1.68%
Information technology	1.81%	1.54%
Cash and cash equivalents	1.29%	0.00%
Energy	1.23%	0.45%
Materials	0.55%	0.42%
Financials	0.49%	2.35%
Number of holdings	31	50

Market Commentary

Early in the quarter saw global markets impacted by a rotation away from large cap tech related stocks along with rate cuts and the prospect of rate cuts. August was impacted by weak economic data and the unwind of the carry trade in Japan which saw markets sell off aggressively early in the month. More positive economic data came out shortly after which resulted in a remarkably quick turnaround. September was assisted by a 50bp rate cut by the US Federal Reserve and a large stimulus package in China aimed at restoring confidence in the economy. In New Zealand the RBNZ surprised markets in July with a much more dovish statement and this was followed up by a cut in the OCR in August. This led to the equity market producing a strong return in July and most of August before the reality of the weak economy was shown in earnings results from companies. In September Auckland International Airport conducted a \$1.4 billion capital raising, the largest ever in New Zealand outside of an Initial Public Offering. This was followed by Fletcher Building raising \$700m to improve its balance sheet. The combination of these two weighed on the market as investors funded their participation in them by selling other stocks.

Fund Commentary

The largest positive contributors to the fund's relative return were overweight positions in **Summerset (SUM)**, **Ryman Healthcare (RYM)** and **Sky Network Television (SKT)**. While there was news for both SUM and RYM with a result and changes to fees and development model, the driving force for the return of both stocks was the change in stance from the Reserve Bank and ultimately the OCR cut. SUM rose 27.0% while RYM rose 20.8% over the quarter. 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 quarter up 17.1%.

The largest negative contributors to relative return were from overweight positions in **Spark (SPK)** and **Contact Energy (CEN)** and an underweight position in **Port of Tauranga (POT)**. SPK disappointed the market by providing an earnings result below the bottom-end of their guidance range and ended the quarter down 23.0%. SPK is also being impacted by the possibility that it will be removed from a large global index and some investors are positioning themselves ahead of this by selling the stock. CEN announced a takeover offer of Manawa Energy (MNW) but the main driver of its performance over the quarter was disappointing investors with its dividend profile over the next few years. CEN ended the quarter down 5.9%. After a weak performance over the June quarter, POT recovered through the September quarter and ended up 28.8%.

Key portfolio changes during the month included adding to our positions in **Auckland International Airport (AIA)**, **Fletcher Building (FBU)** and **NextDC (NXT)** through their respective capital raisings. Other positions added to included **CEN**, **Ingenia Communities (INA)**, **Mainfreight (MFT)**, **Meridian Energy (MEL)**, **POT**, **Resmed (RMD)**, **SKT** and **Worley (WOR)**. A new position was established in **Kiwi Property (KPG)**. Positions in **Channel Infrastructure (CHI)**, **Aristocrat Leisure (ALL)**, **Ebos (EBO)**, **Chorus (CNU)**, **Mercury (MCY)**, **SPK**, and **Infratil (IFT)** were reduced. The fund's holding in **Arvidia (ARV)** 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.	Exclusions:	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:	\$271.1m
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 quarter.

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