

# Nikko AM Core Equity Strategy

Monthly Update 31 October 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

- Most key international equity markets were negative over the month with rising bond yields providing a head wind.
- The United States S&P 500 index fell 1.0%, the Japanese Nikkei 225 rose 3.1%, the UK FTSE 100 index declined 1.5%, the Australian ASX 200 index lost 1.3% and the MSCI World index ended the month down 1.1% (in local terms).
- The S&P/NZX 50 index ended the month up 1.7%.

## Fund Highlights

- The fund ended the month up 2.2%, 0.4% ahead of the index return.
- Arcadium Lithium received a takeover bid from Rio Tinto at a price around 100% above where it was trading.
- Both Freightways and Scales had large shareholders sell their positions that were approximately \$110m and \$80m in value.
- Overweight positions in Arcadium Lithium and Ryman Healthcare and an underweight in Gentrack added value. Overweight positions in NextDC and Worley and an underweight position in Freightways detracted from value.

## Performance

	One month	Three months	One year	Three years (p.a.)	Five years (p.a.)	Ten years (p.a.)
<b>Wholesale<sup>1</sup></b>	2.18%	2.55%	18.72%	1.24%	5.42%	10.98%
<b>Benchmark<sup>2</sup></b>	1.74%	2.19%	18.41%	-0.36%	4.00%	9.95%
<b>Retail<sup>3</sup></b>	2.11%	2.31%	17.52%	0.29%	4.47%	9.77%

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.

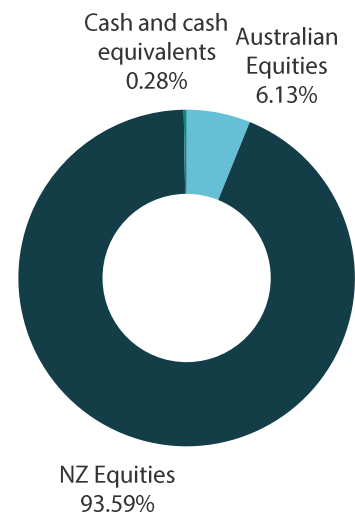
## Objective

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<sup>1,2</sup>



## Asset Allocation



Attribution To Performance			
<b>What Helped:</b>		<b>What Hurt:</b>	
Arcadium Lithium	OW	Freightways	UW
Ryman Healthcare	OW	NextDC	OW
Gentrack	NH	Worley	OW

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

Top 10 Holdings (% of fund)			
Fisher & Paykel Healthcare	15.93	Spark New Zealand	5.30
Infratil	11.28	Mainfreight	4.79
Auckland International Airport	8.93	EBOS	4.32
Contact Energy	7.43	Summerset	4.31
Meridian Energy	6.05	A2 Milk	4.08

Sector Allocation (% of fund)	Fund	Benchmark
Health care	29.18%	26.36%
Industrials	17.95%	20.55%
Utilities	16.60%	16.80%
Financials	11.77%	12.32%
Communication services	9.82%	7.48%
Consumer staples	4.93%	4.66%
Real estate	3.39%	7.74%
Consumer discretionary	2.46%	1.67%
Information technology	1.87%	1.54%
Energy	1.22%	0.46%
Materials	0.53%	0.43%
Cash and cash equivalents	0.28%	0.00%
<b>Number of holdings</b>	<b>33</b>	<b>50</b>

## Market Commentary

Most key international equity markets were negative over the month with rising bond yields providing a head wind. Markets are also trying to assess the impact of the pending election in the United States. Also, earnings results are starting to come out in the United States for the period ending September. The US 10-year bond yield rose 50bps over the month as better economic data fed through to likely slower or smaller rate cuts than had previously been expected. This move flowed through to both the New Zealand and Australian 10-year bond yields, up 24bps and 53bps respectively. Assisting the New Zealand equity market was the Reserve Bank of New Zealand continuing its rate cuts, dropping the Official Cash Rate by 50bps during the month.

## Fund Commentary

The largest positive contributors to the fund's relative return were overweight positions in **Arcadium Lithium** (LTM) and **Ryman Healthcare** (RYM) and an underweight in **Gentrack** (GTK). During the month LTM received a takeover bid from Rio Tinto at US\$5.85 per share which the LTM board has endorsed. On the back of this, LTM rose 94.1% (in AUD) over the month. RYM rose 15.6% over the period as it continues to benefit from investors rotating into interest rate sensitive stocks. After a very strong run this year, GTK gave some of that up in November, falling 6.9% on no specific news.

The largest negative contributors to relative return were from overweight positions in **NextDC** (NXT) and **Worley** (WOR) and an underweight position in **Freightways** (FRW). NXT fell 6.2% (in AUD) as it continues to digest its \$550m capital raise from September while WOR gave up 5.6% (in AUD) on no specific news. FRW rose 15.3% after an existing shareholder sold a \$110m position that had been weighing on the stock price. FRW also benefited from the cash rate cut during the month.

Key portfolio changes during the month included adding to our positions in **Fisher & Paykel Healthcare** (FPH), **Fletcher Building** (FBU), **Kiwi Property** (KPG), **Meridian Energy** (MEL), **Serko** (SKO), **Stride Property** (SPG) and WOR. New positions were established in **Scales** (SCL) and FRE by way of the shareholder sell-downs. Positions in **Channel Infrastructure** (CHI), **Aristocrat Leisure** (ALL), **Ebos** (EBO), **Chorus** (CNU), LTM, **ResMed** (RMD) and **Infratil** (IFT) were reduced. (**Bold** denotes stocks held in the portfolio).

## Key Fund Facts

<b>Estimated annual fund charges (incl. GST)</b>		<b>Exclusions:</b> 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 <a href="https://www.nikkoam.co.nz/invest/retail">https://www.nikkoam.co.nz/invest/retail</a> .	<b>Strategy Launch:</b>	October 2007
<b>Wholesale:</b>	Negotiated outside of the unit price.		<b>Strategy size:</b>	\$276.7m
<b>Retail:</b>	0.95%, refer to PDS for more details.		<b>Buy / Sell spread:</b>	0.29%/0.29%
<b>Distributions</b>				
<b>Wholesale:</b>	Calendar quarter			
<b>Retail:</b>	March and September			

## Compliance

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

## Contact Us

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