

Nikko AM Core Equity Strategy

Monthly Update 28 February 2025

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 were mixed over February with European markets up while most other markets declined. Drivers were earnings results, tariffs proposed by the US and interest rate cuts.
- The United States S&P 500 index fell 1.4%, the Japanese Nikkei 225 dropped 6.1%, the UK FTSE 100 index rose 1.6%, the Australian ASX 200 index lost 3.8% and the MSCI World index ended the month down 0.8% (in local terms).
- The S&P/NZX 50 index ended the month down 3.0%.

Fund Highlights

- The fund ended the month down 3.7%, 0.7% behind the index return.
- It was a very busy month with news flow as companies reported their earnings results for the period ending December 2024.
- Ryman Healthcare surprised the market with a \$1b capital raising at a 29% discount to the last traded price in order to materially reduce debt and gearing levels.
- Overweight positions in Worley, A2 Milk and Contact Energy added value. Overweight positions in Ryman Healthcare and Spark and an underweight position in Fletcher Building detracted from value.

Performance

	One month	Three months	One year	Three years (p.a.)	Five years (p.a.)	Ten years (p.a.)
Wholesale¹	-3.66%	-3.75%	7.45%	3.51%	4.31%	9.91%
Benchmark²	-2.98%	-3.45%	8.14%	2.56%	3.04%	8.95%
Retail³	-3.68%	-3.91%	6.45%	2.55%	3.39%	8.72%

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.

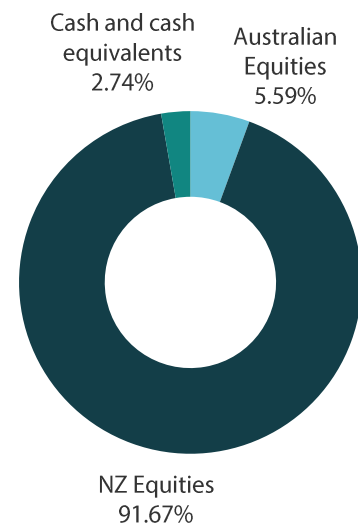
Objective

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:	
Worley	OW	Ryman Healthcare	OW
A2 Milk	OW	Spark	OW
Contact Energy	OW	Fletcher Building	UW

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

Top 10 Holdings (% of fund)			
Fisher & Paykel Healthcare	14.96	A2 Milk	5.09
Auckland International Airport	9.77	Mainfreight	4.92
Infratil	9.67	EBOS	4.34
Contact Energy	7.17	Spark New Zealand	4.25
Meridian Energy	6.34	Summerset	4.23

Sector Allocation (% of fund)	Fund	Benchmark
Health care	28.27	25.11
Industrials	19.35	23.26
Utilities	15.98	16.75
Financials	10.07	10.83
Communication services	8.19	6.37
Consumer staples	5.93	6.09
Real estate	4.23	7.20
Cash and cash equivalents	2.74	0.00
Consumer discretionary	2.30	1.67
Information technology	1.65	1.78
Energy	1.29	0.54
Materials	0.00	0.41
Number of holdings	32	50

Market Commentary

Global equity markets were mixed over February with European markets up while most other markets declined, driven by earnings results, proposed tariffs and interest rate cuts. President Trump threatened wide ranging tariffs with likely rates of 25% on Canadian and Mexican goods and an additional 10% on Chinese goods. Further tariffs on other markets and goods were threatened and are likely. New Zealand's largest listed stock, Fisher & Paykel Healthcare, will be impacted given its manufacturing base in Mexico for goods sold into the United States market. Rate cuts by central banks around the world continue with the Reserve Bank of Australia delivering its first rate cut of the cycle. The Reserve Bank of New Zealand also cuts rates with the Official Cash rate 1.75% lower than its peak of 5.5%. Earnings results were also a driver of stock specific returns over the month. The last day of February saw elevated trading across the NZX as MSCI index adjustments occurred. As part of these adjustments Contact Energy was added to the MSCI standard index while Mercury was removed.

Fund Commentary

The largest positive contributors to the fund's relative return were overweight positions in **Worley** (WOR), **A2 Milk** (ATM) and **Contact Energy** (CEN). WOR produced a solid earnings result but more importantly for investors was that they reconfirmed their full year earnings guidance along with announcing a \$500m share buyback. WOR rose 5.3% (in AUD) over the month. After disappointing the market at its last result, ATM produced a good result and provided guidance around revenue and margin growth better than market expectations. ATM rose 37.3%. CEN released its first half 2025 result during the month with little that surprised the market. The key driver of the share price movement during the period was CEN's addition to the MSCI standard index which resulted in a lot of forced buying by funds that track the index. CEN ended the month up 1.8%.

The largest negative contributors to relative return were from overweight positions in **Ryman Healthcare** (RYM) and **Spark** (SPK) and an underweight position in **Fletcher Building** (FBU). RYM surprised the market with a large \$1b capital raising to reduce debt and gearing levels. RYM also announced a trading update that was worse than the market was anticipating, citing challenging market conditions, heightened competition and impacts from changes to pricing model and organisational restructure. The capital raise was at a large 29% discount to last traded price and the stock fell 23.9%. SPK fell heavily following the fourth downgrade / miss in a row as revenue was challenged from the economic slowdown and competition along with cost out not materialising in the half as investors expected. SPK dropped 22.0% over the month. FBU rose 18.5% following a result that was roughly in line with what the market was expecting. Investors took comfort that there wasn't an earnings downgrade given the uncertain economic conditions and drove the stock price higher over the month.

Key portfolio changes during the month included adding to our positions in **EBOS** (EBO), **Infratil** (IFT), **Kiwi Property** (KPG), **Mainfreight** (MFT), **Meridian Energy** (MEL), **ResMed** (RMD), **Stride Property** (SPG) and **Fisher & Paykel Healthcare** (FPH). Our position in RYM was added to as part of the capital raising. Positions in ATM, **Aristocrat Leisure** (ALL), **Auckland International Airport** (AIA), CEN, **Ingenia Communities** (INA) and FBU were reduced. The fund's position in Arcadium Lithium was divested ahead of the takeover completing in March. (**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: \$282m
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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