nikko am
Nikko Asset Management

Factsheet 30 November 2018

NIKKO AM SRI EQUITY STRATEGY

Applies to: Nikko AM Wholesale SRI Equity Fund

Market Overview

- Following last month's sell off, equity markets globally remained volatile.
- The United States S&P 500 index rose 1.8%, the Japanese Nikkei 225 index was up 2.0%, the FTSE 100 index lost 2.1% and the MSCI World index ended up 1.4%.
- S&P/NZX 50 index was up 0.9%.

Fund Highlights

- The fund was down 0.54% for the month and 1.42% behind the index.
- Key positions that added value were an underweight in Ryman Healthcare and overweight positions in Infratil and Orocobre. Overweight positions in Fletcher Building, Metro Performing Glass and Trademe Group, a nil holding at the start of the month were the largest detractors to relative return.
- Several key portfolio positions were impacted by earnings results and annual shareholder meetings.

Performance

	One month	Three months	One year	Three years (p.a)	Five years (p.a)	Ten years (p.a)
Wholesale[1]	-0.54%	-7.12%	7.72%	16.47%	16.20%	14.90%
Benchmark[2]	0.88%	-4.89%	8.92%	14.42%	14.37%	13.52%

1. Returns are before tax and before the deduction of fees
2. Benchmark: S&P / NZX 50 Index Gross (with Imputation Credits). No tax or fees.

Portfolio Manager

Michael De Cesare,

Portfolio Manager, CAIA

Michael joined Nikko AM in 2012 and has over 8 years of experience working in financial markets and corporate finance. He is responsible for the SRI Fund and from a research perspective covers the Consumer Discretionary and Consumer Staples sectors.

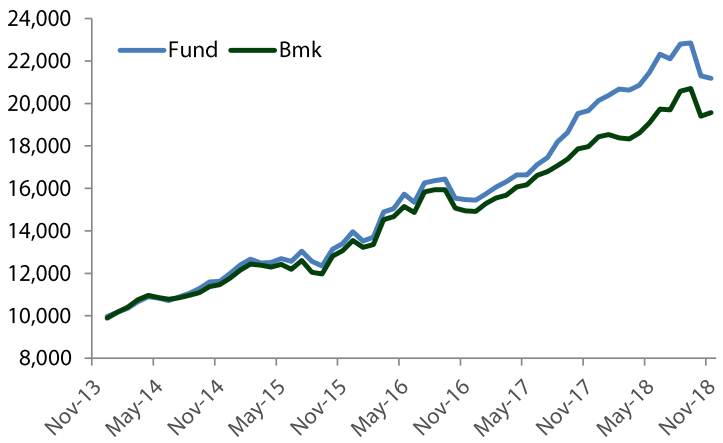
Overview

The SRI 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. In addition, the fund has a negative screen to exclude liquor, tobacco, armaments, gambling, adult entertainment and fossil fuel stocks.

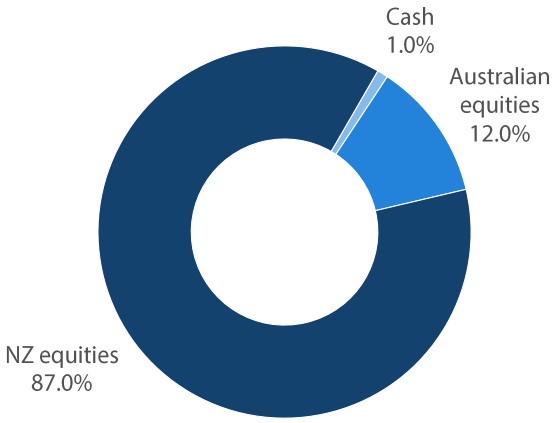
Objective

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[1, 2]



Asset Allocation



Attribution to Performance			
What Helped:		What Hurt:	
Ryman Healthcare	NH	Trade Me Group	UW
Infratil	OW	Fletcher Building	OW
Orocobre	OW	Metro Performance	OW
OW: overweight; UW: underweight; NH: no holding – month end position			
Top 10 Holdings			
The a2 Milk Company Ltd	11.80%	Fletcher Building Ltd	6.41%
Spark New Zealand Ltd	9.07%	Infratil Ltd	5.92%
Contact Energy Ltd	7.93%	Mainfreight Ltd	5.14%
Auckland Airport	7.60%	Metlifecare Ltd	3.91%
Fisher & Paykel Health	6.54%	Summerset Group	3.87%
		Number of holdings	**33**

Sector Allocation	Fund	Benchmark
Health Care	15.09%	18.69%
Utilities	14.15%	16.24%
Consumer Staples	13.52%	10.78%
Industrials	13.19%	15.74%
Communication Services	9.61%	11.55%
Materials	7.24%	4.37%
Consumer Discretionary	7.14%	6.84%
Real Estate	6.58%	9.22%
Energy	6.42%	2.92%
Financials	3.83%	2.54%
Information Technology	2.28%	1.11%
Cash	0.95%	0.00%

Market Commentary

Following last month's broad based sell off, equity markets remained volatile with the ongoing back and forward on trade and tariff positioning from the United States and China. The United States S&P 500 index rose 1.8%, the Japanese Nikkei 225 index was up 2.0%, the FTSE 100 index lost 2.1% and the MSCI World index ended up 1.4%. The New Zealand market, as measured by the S&P/NZX 50 index was down 0.88% with heavy news flow and takeover offers producing a large range of returns across the market.

Fund Commentary

The fund fell 0.54%, 1.42% behind the index. Earnings results for the period ending September along with annual shareholder meetings saw a lot of news flow during the month. The largest positive contributors to relative return were an underweight position in Ryman Healthcare (RYM) and overweight positions in **Orocobre** (ORE), **Infratil** (IFT) and **Contact Energy** (CEN). RYM's half year earnings result was in line to slightly underwhelming and the build rate outlook is lower than previous expectations. Pleasingly there are no signs of a slowing housing market impacting on unit sales and settlements. RYM fell 4.2% over the month which follows the 13.6% drop in October. ORE gained 27% over the month supported by commodity prices, AGM commentary and the confirmed Final Investment Decision on Phase Two development at Olaroz in Argentina. CEN rose 5.0% following a strong monthly operating update while IFT increased 8.5% after a good half year earnings result and well attended visit to their Canberra Data Centre asset. The largest negative contributors to relative return were overweight positions in **Fletcher Building** (FBU), **Metro Performance Glass** (MPG). TradeMe detracted from performance when an indicative takeover was announced at $6.45 causing a sharp price jump. FBU tumbled 21.2% after providing earnings guidance at its annual shareholder meeting that was 4 – 5% lower than market expectations. FBU cited concerns around the outlook for earnings from its Australian business. MPG fared even worse, dropping 41.1% on two pieces of news. The first being a customer's intention to directly compete with MPG and second, an earnings update which showed tough trading conditions in its Australian division. Key portfolio changes during the month included increasing positions in **A2 Milk** (ATM), **Pacific Edge** (PEB), **Fletcher Building** (FBU), **Infratil** (IFT) and introducing **Trade Me** (TME). Positions in Mercury NZ (MCY) was sold completely.

(Bold denotes stock held in portfolio)

Key Fund Facts

Distributions
Calendar quarter.

Hedging
Foreign currency exposures may be hedged to NZD at the Manager's discretion within an operational range of 0% to 105%.
Currently the fund's foreign currency exposure is unhedged

Estimated annual fund charges
Wholesale: negotiated outside of fund

Buy / Sell spread:	Strategy Launch Date	Strategy size
0.29% / 0.29%	January 2008	$27.8m

Compliance

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

Contact Us

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