nikko am
Nikko Asset Management

Factsheet 31 December 2018

NIKKO AM SRI EQUITY STRATEGY

Applies to: Nikko AM Wholesale SRI Equity Fund

Market Overview

- Equity markets tumbled during the quarter.
- The S&P 500 index fell 17.1%, the Nikkei 225 index was down 16.4%, the FTSE 100 index lost 10.5% and the MSCI World index ended down 15.6%.
- S&P/NZX 50 index was down 5.6% and the Australian S&P/ASX 200 index down 8.2%.

Fund Highlights

- The fund declined by 7.4% and underperformed its benchmark.
- A number of fund holdings reported earnings results, in addition to heavy news flow and elevated market volatility.
- Metlifecare and Summerset proved to be a drag on relative return. While a nil holding in Ryman Healthcare alongside overweight's in Infratil and A2 Milk were key positives.

Performance

	One month	Three months	One year	Three years (p.a)	Five years (p.a)	Ten years (p.a)
Wholesale[1]	-0.15%	-7.43%	5.03%	14.84%	16.23%	14.58%
Benchmark[2]	-0.08%	-5.60%	6.04%	13.00%	14.62%	13.49%

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.

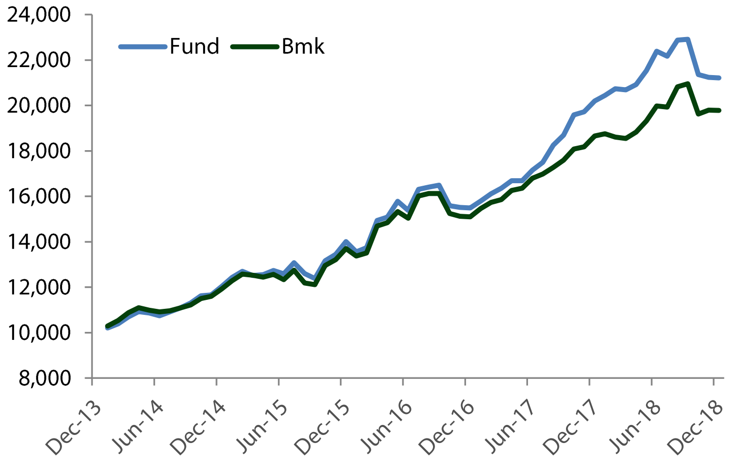
Overview

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.

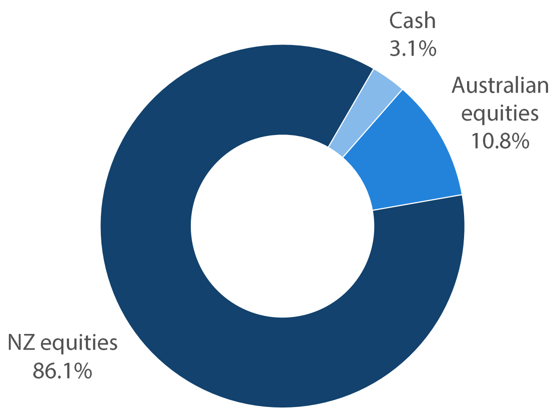
Objective

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	Metlifecare	OW
Infratil	OW	Summerset Group	OW
The A2 Milk Company	OW	Trade Me Group	UW
OW: overweight; UW: underweight; NH: no holding – month end position			

Top 10 Holdings			
The A2 Milk Company Ltd	12.73%	Fletcher Building Ltd	6.13%
Contact Energy Ltd	7.92%	Infratil Ltd	5.73%
Spark New Zealand Ltd	7.72%	Mainfreight Ltd	5.04%
Fisher & Paykel Health	7.07%	Restaurant Brands	4.12%
Auckland Airport	6.74%	Metlifecare Ltd	3.80%
		Number of holdings	32

Sector Allocation	Fund	Benchmark
Consumer Staples	14.99%	11.09%
Health Care	14.96%	18.03%
Utilities	13.65%	16.42%
Industrials	11.82%	15.82%
Consumer Discretionary	8.27%	6.87%
Communication Services	8.14%	11.49%
Real Estate	7.05%	9.29%
Materials	6.74%	4.45%
Energy	6.16%	2.89%
Financials	3.17%	2.42%
Cash	3.14%	0.00%
Information Technology	1.89%	1.23%

Market Commentary

Equity markets performed particularly poorly over the quarter, impacted by the ongoing trade and tariff positioning from the United States and China. The United States S&P 500 index fell 17.1%, the Japanese Nikkei 225 index was down 16.4%, the FTSE 100 index lost 10.5% and the MSCI World index ended down 15.6%. NZ and Australian markets followed suit directionally with the S&P/NZX 50 Index being down 5.6%, placing it as one of the strongest performing equity markets globally during the quarter and the S&P/ASX 200 fell 8.2%.

Fund Commentary

The fund ended the quarter down 7.43% and 1.9% below the index. The standout positive contributors to relative return were a nil position in Ryman Healthcare (RYM), and large overweight positions in **Infratil** (IFT) and **A2 Milk** (ATM). RYM's performance has been subdued of late due to an elevated market value relative to its peers alongside weakening investor sentiment toward the Australasian residential property market. IFT's half year result confirmed that the current portfolio companies are solid, with most performing either at or ahead of expectations, thus boding well for future value creation. ATM's performance has been firmer following their late November AGM which revealed an impressive start to FY19 alongside reaffirmation of their strong growth outlook. In addition, the shadow of regulatory uncertainty has begun to dissipate with China's recent announcements easing concerns over the longevity and viability of ATM's primary distribution channel, cross-border ecommerce. The main negative detraction to relative return came from two overweight positions in the retirement industry. The combined performance of **Metlifecare** (MET) and **Summerset** (SUM) eradicated most of the relative gains earned from the nil position in their industry peer RYM. While the two companies do not suffer from the same stretched valuation concerns as RYM, they were nevertheless still caught in the industry wide weakness. This is currently being driven by negative market sentiment toward residential property however focus should eventually return to more relevant aspects concerning the sound operational performance of the companies and the attractive long-term fundamentals of the industry. Key portfolio changes during the quarter included adding **Mirvac Group** (MGR), **Trade Me** (TME) and **Sky TV** (SKT). While increasing the position size of **Sanford** (SAN), **Restaurant Brands** (RBD) and **A2 Milk** (ATM). In addition, exiting Tilt Renewables (TLT) and Mercury (MCY), while reducing the position size of **Metro Performing Glass** (MPG) and **Japara Healthcare** (JHC).

(**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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