

Factsheet 31 March 2019

NIKKO AM SRI EQUITY STRATEGY

Applies to: Nikko AM Wholesale SRI Equity Fund

Market Overview

- Equity markets bounced back from the tough end to 2018 with a strong first quarter of 2019.
- The United States S&P 500 index rose 13.1%, the Japanese Nikkei 225 index was up 6.0%, the Euro Stoxx 50 index added 11.7% and the MSCI World index ended up 12.3%.
- S&P/NZX 50 index backed up last year's relatively strong performance, adding 12.1% over the quarter.

Fund Highlights

- The fund ended the quarter up 11.1%, which lagged 1.0% behind the index.
- Key positions that added value were overweight positions in A2 Milk, Contact Energy, Viva Energy and an underweight in Air New Zealand. Our overweight positions in Metlifecare and Ingenia Communities as well as a nil holding in Meridian Energy detracted value.

Performance

	One month	Three months	One year	Three years (p.a)	Five years (p.a)	Ten years (p.a)
Wholesale ¹	4.04%	11.09%	13.92%	16.42%	17.11%	16.14%
Benchmark ²	5.88%	12.09%	19.55%	14.69%	15.30%	15.34%

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.



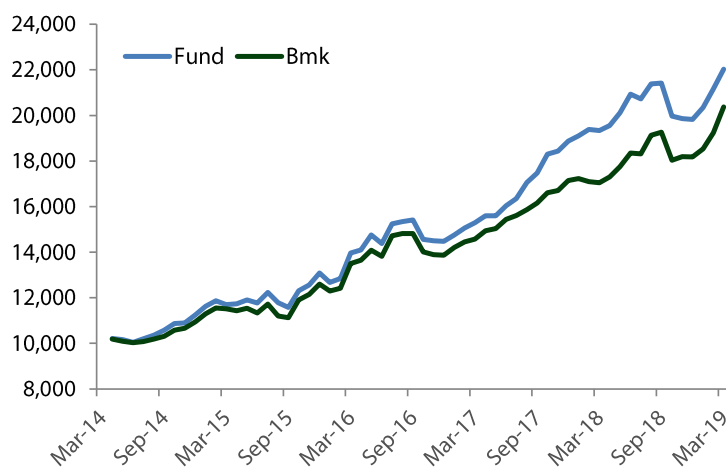
Overview

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.

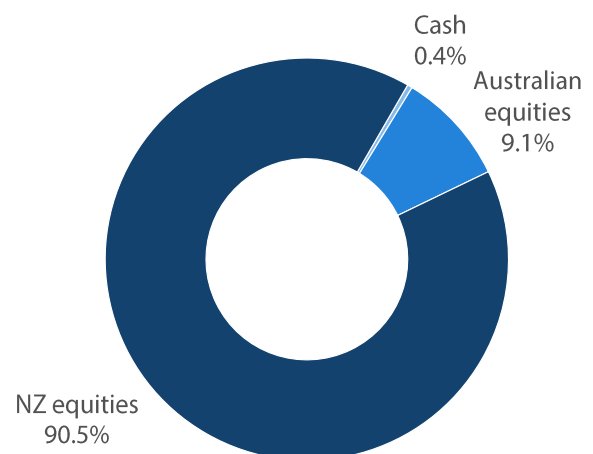
Objective

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 (Quarter)			
What Helped:		What Hurt:	
A2 Milk	OW	Meridian Energy	NH
Air New Zealand	NH	Metlifecare	OW
Contact Energy	OW	NZ Refining	OW
OW: overweight; UW: underweight; NH: no holding. Month end position			
Top 10 Holdings			
The A2 Milk Company	12.27%	Infratil	6.26%
Contact Energy	9.51%	Fletcher Building	5.83%
Spark New Zealand	8.58%	Z Energy	5.64%
Fisher & Paykel Healthcare	8.44%	Mainfreight	5.47%
Auckland Airport	6.72%	Restaurant Brands	3.78%
Number of holdings			31

Sector Allocation	Fund	Benchmark
Utilities	17.89%	17.52%
Health Care	15.67%	18.55%
Consumer Staples	14.38%	12.58%
Industrials	12.22%	15.65%
Communication Services	9.16%	9.82%
Energy	9.09%	2.81%
Materials	6.53%	4.13%
Consumer Discretionary	5.53%	5.74%
Real Estate	5.39%	9.23%
Financials	2.07%	2.27%
Information Technology	1.70%	1.70%
Cash	0.37%	0.00%

Market Commentary

Equity markets bounced back from the tough end to 2018 with a strong first quarter of 2019. Over the quarter, the United States S&P 500 index rose 13.1%, the Japanese Nikkei 225 index was up 6.0%, the Euro Stoxx 50 index added 11.7% and the MSCI World index ended up 12.3%. The New Zealand market, which performed relatively well last year versus the rest of world, continued its good run with the S&P/NZX 50 index ending the quarter up 12.1%. Interest rates globally declined over the quarter, reflecting concerns around economic growth. The New Zealand 10-year government bond followed the offshore lead ending the period at 1.8%, close to its all-time low which occurred the day before quarter end. With interest rates declining investors flooded into high yield equity names including a number of the S&P/NZX 50 stocks.

Fund Commentary

The fund produced a very strong absolute return of 11.1% over the quarter but lagged the index by 1.0%. The overweight position in **A2 Milk** (ATM) continues to produce outstanding results, and was up 28.3% over the quarter. Our holding in **Contact Energy** (CEN) rose 21.3% as it benefited from investors chasing stocks with relatively high yields. Air New Zealand, a nil holding, fell 12.9% after reporting a weaker than expected earnings result in February which followed a downgrade in earnings guidance in January. Pleasingly the largest positive contributors to relative return was **Viva Energy** (VEA) which reported a new extended alliance deal with Coles Express to 2029 and a solid FY18 result. Our overweight positions in **Metlifecare** (MET), **Ingenia Communities** (INA) and **New Zealand Refining** (NZR) detracted from performance. MET struggled for support falling 6.7% post their result while NZR forecast higher expenses for the year ahead which led the stock to fall 7.9%. Nil holding in Meridian Energy and Chorus detracted from relative performance as the stocks rallied 26% and 24% respectively driven by the same investor interest which benefitted CEN. Mirvac Group was sold completely during quarter while TradeMe was substantially reduced. ANZ Bank, Westpac Bank and ATM were reduced given during the quarter. The proceeds were invested in Z Energy, Contact Energy, Spark, Fisher & Paykel Healthcare, Mainfreight, Michael Hill International and Meridian Energy.

(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:
0.29% / 0.29%

Strategy Launch Date
January 2008

Strategy size
\$31.8m

Compliance

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

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