

Factsheet 31 May 2019

# NIKKO AM SRI EQUITY STRATEGY

Applies to: Nikko AM Wholesale SRI Equity Fund

## Market Overview

- In general, the major global equity indices performed poorly over the period with significant negative returns in some cases. Against this common theme, the flagship Australian and NZ indices bucked the trend by delivering a positive return.
- The bellwether MSCI World index declined by 6.0%, US S&P 500 by 6.6%, Japanese Nikkei 225 by 7.4% and the UK FTSE 100 index declined by 3.5%
- On the contrary, the ASX 200 index increased by 1.7% and the NZX 50 added 1.1% (all index returns quoted in local currency).

## Fund Highlights

- The fund produced a 1.7% positive return for May, building on a strong YTD.
- Key overweight positions that added value against the index were Contact Energy, Mainfreight and Investore Property, as well as nil holdings in Ryman, Synlait and the restricted Skycity.
- Detracting value against the index were overweight positions in Metlifecare, Michael Hill and A2 Milk, as did nil holdings in Vista, Goodman and Mercury.

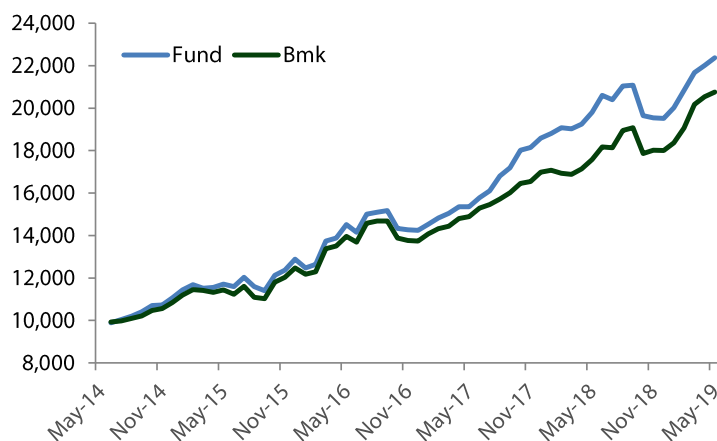
## Performance

	One month	Three months	One year	Three years (p.a)	Five years (p.a)	Ten years (p.a)
Wholesale <sup>1</sup>	1.66%	7.38%	12.97%	15.50%	17.48%	15.49%
Benchmark <sup>2</sup>	1.10%	8.89%	18.04%	14.15%	15.73%	14.92%

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.

## Five Year Cumulative Performance, \$10,000 invested<sup>1,2</sup>



## 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.



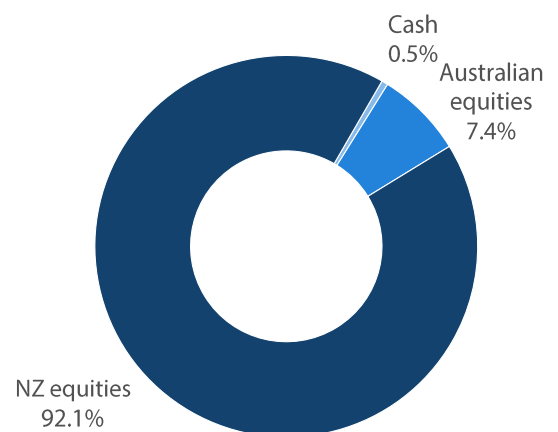
## Overview

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.

## Asset Allocation



Attribution to Performance (Month)			
What Helped:		What Hurt:	
Contact Energy	OW	Metlifecare	OW
Ryman Healthcare	NH	Michael Hill Int.	OW
Mainfreight	OW	The A2 Milk Company	OW
OW: overweight; UW: underweight; NH: no holding. Month end position			
Top 10 Holdings			
The A2 Milk Company	14.12%	Infratil	6.75%
Contact Energy	10.56%	Mainfreight	5.81%
Spark New Zealand	8.54%	Z Energy	5.57%
Auckland Airport	7.27%	Fletcher Building	5.15%
Fisher & Paykel Healthcare	7.15%	Metlifecare	3.07%
<b>Number of holdings</b>			<b>33</b>

Sector Allocation	Fund	Benchmark
Utilities	19.83%	18.10%
Consumer Staples	16.13%	13.34%
Health Care	14.01%	18.15%
Industrials	13.08%	16.45%
Communication Services	9.08%	9.69%
Energy	8.63%	2.69%
Real Estate	7.72%	9.68%
Materials	5.61%	4.34%
Consumer Discretionary	2.49%	3.18%
Information Technology	2.22%	1.96%
Financials	0.66%	2.42%
Cash	0.54%	0.00%

## Market Commentary

For most major global equity indices, the month of May entailed a significant retracement, albeit after an exceptionally strong run during 2019. Trade disputes resurfaced as the principal driver of market direction with the tit-for-tat exchange between the world's two largest economies escalating. This led equity markets and bond yields lower. Despite positive rhetoric around the potential for an agreement, it failed to materialise. Instead, the US increased tariffs and China announced their intent to retaliate as their patience appears to be running thin. The US provided further cause for concern at the end of the month, revealing plans to introduce a tariff on all goods from Mexico. The move is due to an apparent disappointment around Mexico's border control.

With the global risk-off backdrop sending bond yields lower, the relatively large New Zealand and Australian dividends on offer helped to produce a positive return, supported in particular by utilities, property and infrastructure stocks.

## Fund Commentary

The fund produced a 1.7% positive absolute return for May. The most significant drivers of relative return were overweight positions held in **Contact**, **Mainfreight** and **Investore Property** as well as nil holdings in Ryman, the restricted Sky City and Synlait. CEN rose 9.8%, helped by increasing confidence in the quality of the company's earnings and associated ability to produce ongoing dividend per share growth. MFT rallied 9.7% after delivering an exceptional earnings result with broad based strength across all divisions. The 26% growth was materially above market expectations and supports the potential to realise their global growth ambitions. IPL increased by 9.1% having delivered a strong and robust result in spite of difficult industry conditions. This reaffirmed their defensive qualities and the attractiveness of the relatively high yield on offer. Detracting value against the index were overweight positions in **Metlifecare**, **Michael Hill** and **A2 Milk**, in addition to nil holdings in Vista, Goodman and Mercury. MET declined by 9.7%, as negative industry sentiment continues, although the nil position in industry peer RYM offset this. MHJ retraced by 15.2% due to ongoing risk aversion as the company's new CEO engineers and executes on the turnaround strategy. ATM pulled back by 5.8% after a very strong run, albeit having still delivered 41.7% YTD. (Bold denotes stock held in portfolio)

## Key Fund Facts

<b>Distributions</b>	<b>Estimated annual fund charges</b>		
Calendar quarter.	Wholesale: negotiated outside of fund		
<b>Hedging</b>	<b>Buy / Sell spread:</b>	<b>Strategy Launch Date</b>	<b>Strategy size</b>
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	0.29% / 0.29%	January 2008	\$32.0m

## Compliance

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

## Contact Us

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