Factsheet 30 June 2019

NIKKO AM SRI EQUITY STRATEGY

Applies to: Nikko AM Wholesale SRI Equity Fund

Market Overview

- Over the quarter, equity markets continue to push higher on the back of low interest rates.
- The United States S&P 500 index rose 4.8%, the Japanese Nikkei 225 index increased 0.3%, the FTSE 100 index added 2.0%, the ASX 200 index jumped 8.0% and the MSCI World index ended the quarter up 3.2%.
- The S&P/NZX 50 index performed well against international peers, up 6.8%.
- Bond yields continued to fall globally with 10-year US Treasury bond yields dropping 40bps over the quarter to 2.01% while the NZ 10 year bond ended the quarter down 24bps to 1.57%.

Fund Highlights

- The fund delivered a positive 6.3% return for the quarter, building on a strong year-to-date.
- Stocks that added value against the index were overweight positions held in Contact, Infratil and Restaurant Brands, in addition to a nil holding in Ryman Healthare.
- Detracting value were overweight positions in Metlifecare, Summerset, Viva Energy and underweights in Mercury and Meridian

Performance

	One month	Three months	One year	Three years (p.a)	Five years (p.a)	Ten years (p.a)
Wholesale[1]	3.00%	6.30%	11.87%	17.65%	18.44%	15.66%
Benchmark[2]	3.86%	6.82%	18.60%	16.36%	16.77%	15.22%

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 9 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.

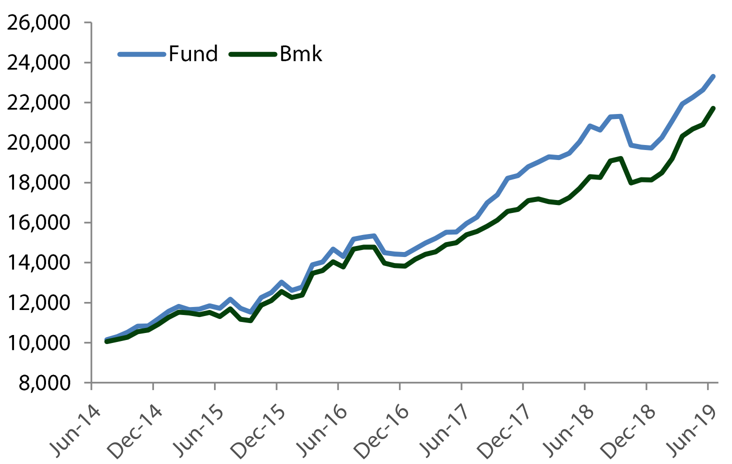
Overview

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.

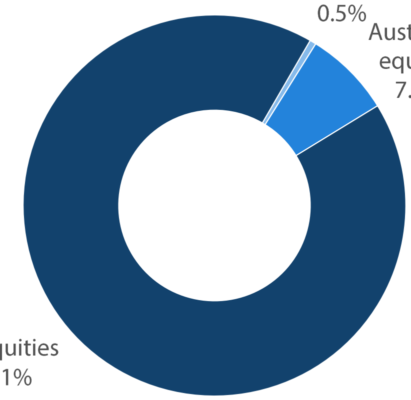
Objective

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, $10,000 invested[1, 2]



Asset Allocation



Attribution to	(Quarter)		
What Helped:		What Hurt:	
Ryman Healthcare	NH	Metlifecare	OW
Contact Energy	OW	Summerset Group	OW
Infratil	OW	Viva Energy	OW
OW: overweight; UW: underweight; NH: no holding. Month end position			

Top 10 Holdings			
The A2 Milk Company	13.04%	Fisher & Paykel Health.	6.99%
Contact Energy	11.17%	Mainfreight	5.68%
Spark New Zealand	8.73%	Z Energy	5.40%
Infratil	8.16%	Fletcher Building	4.31%
Auckland Int. Airport	7.96%	Meridian Energy	2.75%
		Number of holdings	**31**

Sector Allocation	Fund	Benchmark
Utilities	22.48%	19.42%
Consumer Staples	15.04%	12.11%
Industrials	13.64%	17.22%
Health Care	13.20%	17.75%
Communication Services	9.24%	9.66%
Real Estate	8.16%	9.82%
Energy	7.86%	2.72%
Materials	4.70%	3.88%
Information Technology	2.13%	2.01%
Consumer Discretionary	2.03%	3.05%
Cash	1.53%	0.00%
Financials	0.00%	2.37%

Market Commentary

Global equity markets have built on the significant first quarter gains, with another remarkable quarter of positive absolute returns. For the calendar year to June end, the US S&P 500 index is up 18.3%, the Euro Stoxx 50 index 16.5%, the ASX 200 index 20.3% and the MSCI world index is up 15.9%. Consistent with global peers, New Zealand's S&P/NZX 50 index performed strongly, up 6.8% in the quarter and a robust 19.3% for the calendar year-to-date. For perspective, over an extended period, the past ten years, the NZ Index has produced a significant absolute return of circa 16% per annum. Market direction continues to be a function of geopolitical tensions, trade disputes, fragile economic growth, pervasive uncertainty, and evolving monetary policy. For the equity markets in particular, this backdrop has driven heightened levels of volatility and sensitivity to risk, and appears to have subordinated, to a degree, the role of company earnings and intrinsic valuation in determining share prices. The extremity of the current dislocation is profound and noteworthy. Nevertheless based on history the market ultimately always reverts back to fundamentals.

Fund Commentary

The fund delivered a positive 6.3% return for the quarter. The most significant drivers of relative return were overweight positions held in **Contact** (CEN), **Infratil** (IFT) and **Restaurant Brands** (RBD), in addition to a nil holding in Ryman. CEN rose 15.3% as investors continue to be attracted to its relatively high and defensive yield and scope for growth in dividend per share. IFT produced an 18.7% return, with their capital raising to fund the acquisition of Vodafone NZ supported, with follow through after the event. RBD has remained resilient after the partial takeover by Finaccess, and their shift from yield, to global growth stock. The retirement village industry continues to underperform the strong market as negative sentiment around residential property in NZ and Australia continues to represent a stubborn overhang. Our nil position in RYM delivered relative value but was more than offset by the overweights held in **Metlifecare** (MET) and **Summerset** (SUM). Beyond the retirement names, detracting value against the index was an overweight position in **Viva Energy** (VEA) in addition to underweights in utility companies **Mercury** (MCY) and **Meridian** (MEL). VEA fell 13.9% (in AUD terms), initially impacted by a downgrade from one of its competitors along with a weaker refining margin. MCY and MEL rallied on declining interest rate expectations. Key portfolio changes in the quarter included adding to **IFT, Z Energy** (ZEL), **Spark** (SPK) and **Investore** (IPL) while new positions in **Argosy Property** (ARG) and **Mercury Energy** were established, albeit remaining underweight. Positions in ANZ Bank (ANZ) and Westpac Bank (WBC) were divested, **Fletcher Building** (FBU) was reduced and also **RBD** as part of the partial takeover by Finaccess. **(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	$32.9m

Compliance

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

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