

Factsheet 31 August 2019

NIKKO AM SRI EQUITY STRATEGY

Applies to: Nikko AM Wholesale SRI Equity Fund

Market Overview

- Global trade, growth, Hong Kong and Brexit concerns weighed on equity markets
- The United States S&P 500 index fell 1.8%, the Japanese Nikkei 225 index lost 3.8%, the FTSE 100 index dropped 5.0%, the ASX 200 index was down 2.4% and the MSCI World index ended the month down 2.0%
- The S&P/NZX 50 index recorded its first down month for the year falling 0.9%

Fund Highlights

- The fund ended the month down 0.71%
- Key positions that added value were Contact Energy (CEN), Ingenia Group (INA) and Spark (SPK), alongside a nil position in Vista Group (VGL).
- Main detractors included an overweight in A2 Milk and nil positions in Goodman Property Trust (GMT), Precinct Properties (PCT), and underweight positions in Meridian (MEL) and Mercury (MCY).

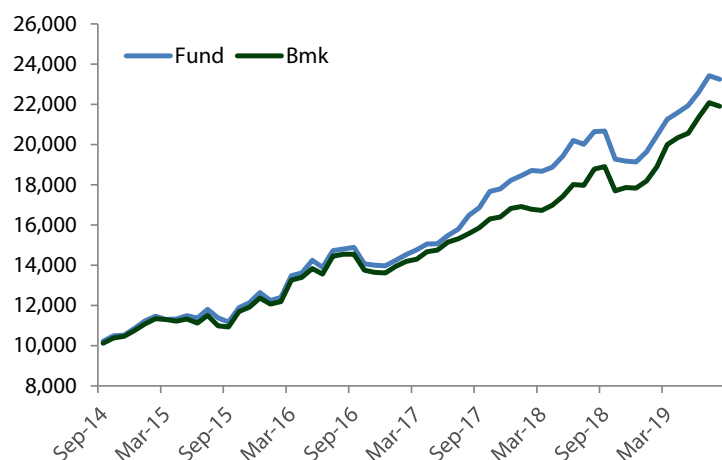
Performance

	One month	Three months	One year	Three years (p.a)	Five years (p.a)	Ten years (p.a)
Wholesale ¹	-0.71%	5.95%	12.65%	16.22%	18.38%	14.85%
Benchmark ²	-0.85%	6.49%	16.66%	14.62%	16.98%	14.33%

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^{1, 2}



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.



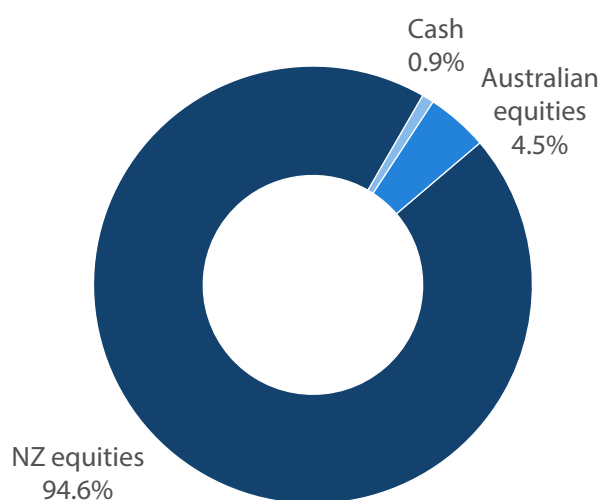
Overview

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.

Asset Allocation



Attribution to Performance				Sector Allocation		Fund	Benchmark
What Helped:		What Hurt:		Utilities	23.18%	19.73%	
Contact Energy	OW	The A2 Milk Company	OW	Consumer Staples	15.16%	11.66%	
Ingenia	OW	Napier Port Holdings	OW	Industrials	13.56%	16.71%	
Vista Group	NH	Mercury Energy	UW	Health Care	12.30%	18.76%	
OW: overweight; UW: underweight; NH: no holding at month end position				Communication Services	11.46%	9.87%	
Top 10 Holdings				Real Estate	9.32%	10.24%	
The A2 Milk Company	13.12%	Fisher & Paykel Health.	6.80%	Energy	6.87%	2.66%	
Contact Energy	9.88%	Mainfreight	5.22%	Materials	3.83%	3.48%	
Spark New Zealand	9.62%	Meridian Energy	4.95%	Consumer Discretionary	2.03%	3.10%	
Auckland Int. Airport	7.93%	Z Energy	4.65%	Information Technology	1.40%	1.49%	
Infratil	7.01%	Summerset Group	3.70%	Cash	0.89%	0.00%	
			Number of holdings	31	Financials	0.00%	2.30%

Market Commentary

Major equity markets ended the month down after a general deterioration in sentiment and risk appetite. The MSCI World index ended the month down 2.0%, the S&P 500 index fell 1.8%, Japanese Nikkei 225 index lost 3.8%, FTSE 100 index dropped 5.0% and the ASX 200 index was down 2.4%. The S&P/NZX 50 index followed suit posting its first down month for the year, falling 0.9%, outperforming most global equity indices. Heightened volatility has been a persistent feature of global markets over recent times. Notwithstanding this, August's move lower was notable for its extreme fluctuations in response to the tone of rhetoric between the US and China. In addition, the US Federal Reserve cut interest rates for the first time in a decade, NZ surprised with a larger cut than expected, both part of a widespread global downswing in rates. While the trade dispute and central bank action dominated media coverage, several other factors have been weighing on sentiment as well. Brexit uncertainty, escalating Hong Kong protests, Eurozone issues with Italy's political developments, and downgrades to global growth estimates. NZ companies that reported results during the month were on balance in line with or better than expected. However most contained growth forecasts for the upcoming year lowering from 5.5% to 4.2% growth for FY20 (median). Comparatively, Australia has endured a larger drop from a higher base, from 8.3% to 5.2% growth. Company consideration and reporting on ESG issues continues to progress, a theme prevalent across the reporting season which serves to safeguard financial performance.

Fund Commentary

The fund produced a negative absolute return for August. The largest positive attributors were overweight positions in **Contact Energy (CEN)**, **Ingenia Group (INA)** and **Spark (SPK)**, alongside a nil position in Vista Group (VGL). Given the current environment, CEN and SPK's positive dividend guidance was duly rewarded by the market, up 11.3% and 11.1% respectively. INA produced a quality earnings result that added further credence to the resilience of their model against a lingering backdrop of Australian residential property trepidation. The Stock finished up 15.5% (in AUD). VGL disappointed the market with earnings guidance well below previous guidance which resulted in a -34.8% fall in August. The largest negative attributor was an overweight position in A2 Milk, followed by a collection of nil positions in yield sensitive names, Goodman Property Trust (GMT), Precinct Properties (PCT) and an underweight position in Meridian (MEL), which all benefited from the widespread central bank easing. ATM's pullback had a pronounced effect on fund attribution over the month. Having rallied 22.8% in July, the stock subsequently lost 19.8% in August. Despite delivering a robust result, growing earnings by circa 50%, a refinement of margin expectations alarmed some market participants. The proposed lift in operating expenditure was always inevitable and relatively well flagged to the market, albeit the magnitude and speed in which it is arriving appears to be a tad more pronounced. Key portfolio changes in the month included **Chorus (CNU)** being added to the portfolio although remains underweight. **Napier Port Holdings (NPH)** was also added at its initial public offering. (**Bold** denotes stock held in portfolio)

Key Fund Facts

Distributions	Estimated annual fund charges		
Calendar quarter.	Wholesale: negotiated outside of fund		
Hedging	Buy / Sell spread:	Strategy Launch Date	Strategy size
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	\$33.5m

Compliance

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

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