

NIKKO AM SRI EQUITY STRATEGY

Applies to: Nikko AM Wholesale SRI Equity Fund

Market Overview

- Low interest rates outweighed global macro concerns to push equity markets higher.
- The United States S&P 500 index rose 1.2%, the Japanese Nikkei 225 index increased 2.3%, the FTSE 100 index fell 0.2%, the ASX 200 index was up 2.4% and the MSCI World index ended the quarter up 0.9%.
- The S&P/NZX 50 index continues to perform well against our international peers, up 4.4% for the quarter and 25% year-to-date.
- Bond yields continued to fall globally with the NZ 10 year bond ending the quarter at 1.09% and the Australian 10 year bond at 1.02%.

Fund Highlights

- The fund ended the quarter up 4.1%
- Key positions that added value were overweights in Ingenia Communities Group (INA), Summerset (SUM) and Contact Energy (CEN) and a nil holding in Vista (VGL).
- Positions that detracted from value include overweights in A2 Milk (ATM), Z Energy (ZEL) and nil positions in Ryman (RYM) and Goodman Property Trust (GMT). These four positions had a disproportionately large negative impact when combined they reduced the relative performance of the fund by 145bps.

Performance

| | One month | Three months | One year | Three years (p.a) | Five years (p.a) | Ten years (p.a) |
|------------------------|-----------|--------------|----------|-------------------|------------------|-----------------|
| Wholesale ¹ | 1.20% | 4.10% | 13.81% | 16.49% | 18.18% | 14.68% |
| Benchmark ² | 1.79% | 4.36% | 17.96% | 15.30% | 17.12% | 14.30% |

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.



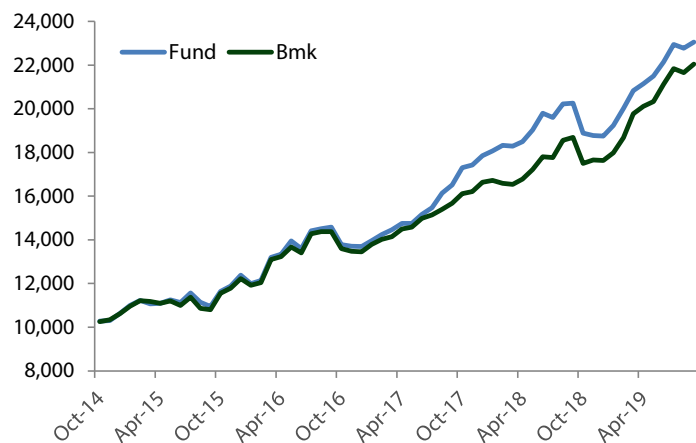
Overview

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.

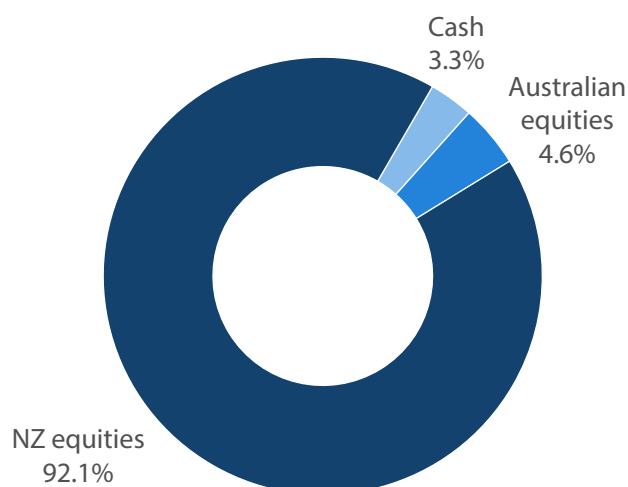
Objective

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 Performance (quarter) | | | |
|---|-------|---------------------|-----------|
| What Helped: | | What Hurt: | |
| Ingenia Communities Group | OW | The A2 Milk Company | OW |
| Vista Group | NH | Ryman | NH |
| Summerset | OW | Z Energy | OW |
| OW: overweight; UW: underweight; NH: no holding at month end position | | | |
| Top 10 Holdings | | | |
| The A2 Milk Company | 11.74 | Fisher & Paykel | 6.50% |
| Contact Energy | 10.12 | Meridian Energy | 5.00% |
| Spark New Zealand | 9.91% | Summerset Group | 4.66% |
| Auckland Int. Airport | 7.08% | Mainfreight | 4.57% |
| Infratil | 6.93% | Z Energy | 3.71% |
| Number of holdings | | | 31 |

| Sector Allocation | Fund | Benchmark |
|------------------------|--------|-----------|
| Utilities | 23.54% | 20.16% |
| Consumer Staples | 13.61% | 10.77% |
| Health Care | 12.81% | 19.42% |
| Communication Services | 12.50% | 9.75% |
| Industrials | 12.02% | 16.10% |
| Real Estate | 9.08% | 10.25% |
| Energy | 5.74% | 2.37% |
| Materials | 3.98% | 3.99% |
| Cash | 3.27% | 0.00% |
| Consumer Discretionary | 2.09% | 3.27% |
| Information Technology | 1.35% | 1.53% |
| Financials | 0.00% | 2.39% |

Market Commentary

Lower interest rates helped key equity markets remain firm over the quarter and close the period higher. This is in spite of concern over a number of risk factors, some of which gained momentum. The S&P/NZX 50 index continues to perform well against our international peers, up 4.4% for the quarter and 25% year to date. Heightened volatility has been a persistent feature of global markets over recent times, although the underlying trend has been positive. In August, the NZ index posted its first down month of the calendar year and most key markets followed suit. This was followed by a positive September that returned the market to its long-term trajectory and meant most equity indices closed the quarter higher. The US Federal Reserve cut interest-rates for the first time in a decade. NZ surprised with a larger cut than expected and this proved to be a part of a coordinated global downswing in rates. In addition, stock prices whipsawed in response to the tone of rhetoric between the two largest economies in the world - US and China, and their ongoing trade dispute. NZ companies that delivered full-year results during the quarter were on balance in line with or better than expected. Growth forecasts however, have been curtailed from 5.5% to 4.2% growth for FY20 (median). Pleasingly, in general, company consideration and reporting on ESG issue continues to progress, a theme prevalent across the reporting season which serves to safeguard financial performance.

Fund Commentary

Over the quarter, the fund generated a 4.1% positive return. The largest positive contributors were overweights held in **Ingenia Communities Group** (INA), **Summerset** (SUM) and **Contact Energy** (CEN); and a nil holding in Vista (VGL). INA continued its recent run adding 26.0% (in AUD) on the back of a good earnings result. SUM rose 20.2% after delivering a result that showed continued demand and price growth for retirement units. CEN also produced a positive result that supported investors' attraction to its relatively strong dividend yield. The stock ended the quarter up 10.5%. VGL disappointed the market and dropped 36.3%, their earnings guidance well below market expectations. The largest negative contributors were overweights in **A2 Milk** (ATM), **Z Energy** (ZEL) and nil positions in Ryman (RYM) and Goodman Property Trust (GMT). ATM produced another result which demonstrated ongoing, stellar earnings growth. In addition they hosted their first ever investor day, located in Shanghai, yet the stock still retraced over the period due to growing concerns around the future cost required to meet their growth ambitions. ZEL lost 11.4% after downgrading its earnings guidance due to increasing retail competition and margin pressure. RYM rose 13.1% on no new company specific information. GMT remains an ongoing beneficiary of demand for defensive yield, of which industrial REITS remain in vogue. Key portfolio changes in the quarter included adding **APN Industria REIT** (APN AU), **Chorus** (CNU) and **Napier Port Holdings** (NPH), with latter taken on its initial public offer. Also positions increased include **Mercury** (MCY), **NZ Refining** (NZR), **Sky Television** (SKT), **Meridian** (MEL) and **Summerset** (SUM). Positions exited were Japara (JHC) and EBOS (EBO). Also positions reduced include **Viva Energy** (VEA), **Eroad** (ERD), **Ingenia** (INA) and **Next DC** (NXT). (**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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