

NIKKO AM SRI EQUITY STRATEGY

Applies to: Nikko AM Wholesale SRI Equity Fund

Market Overview

- Low interest rates eased modestly higher and continued supporting equity markets pushing higher.
- Over the quarter, the United States S&P 500 index rose 8.5%, the Japanese Nikkei 225 index increased 8.7%, the UK FTSE 100 index ground only 1.8% higher, the Australian ASX 200 index was up 0.7% and the MSCI World index ended the quarter up 8.7%, all in local terms.
- The S&P/NZX 50 index continues to perform well against our international peers up 5.3% for the quarter and 31.6% for the year versus the S&P 500 which returned 28.9%
- Bond yields eased with the NZ 10-year bond ending the quarter at 1.65%, the Australian 10-year bond at 1.37% and US 10-year bond at 1.92%.

Fund Highlights

- The fund ended the quarter up 6.01%.
- Key positions that added value were overweights in Summerset, Metlifecare and Ingenia Communities.
- Overweights in Contact Energy and Z Energy and underweights in Ryman Healthcare and Fisher & Paykel Healthcare detracted from value.

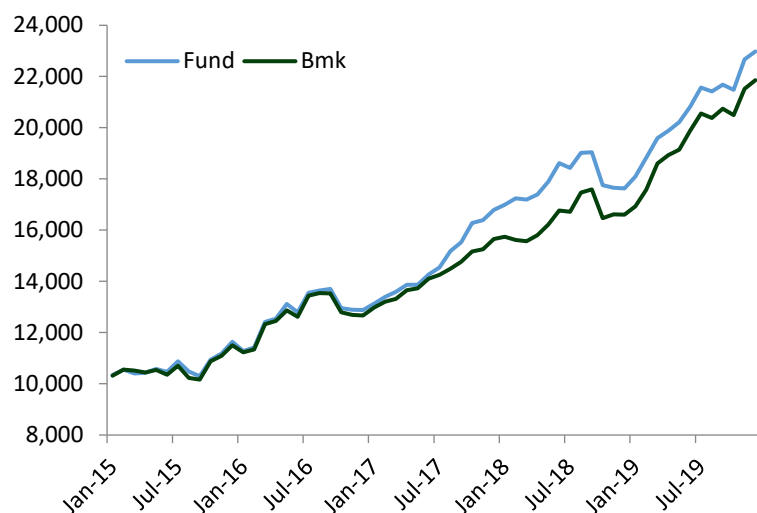
Performance

	One month	Three months	One year	Three years (p.a)	Five years (p.a)	Ten years (p.a)
Wholesale ¹	1.35%	6.01%	30.33%	21.30%	18.10%	15.18%
Benchmark ²	1.60%	5.34%	31.64%	19.94%	16.93%	14.65%

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.



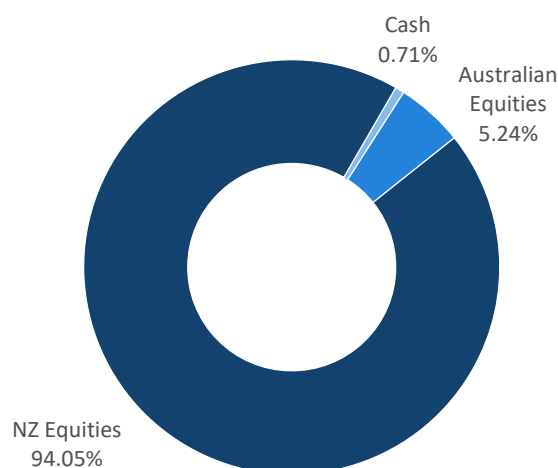
Overview

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		
What Helped:		What Hurt:		Fund	Benchmark	
Summerset Group	OW	Contact Energy	UW	Health Care	25.24%	20.52%
Metlifecare	OW	Ryman Healthcare	UW	Utilities	19.20%	18.86%
Ingenia	OW	Z Energy	OW	Consumer Staples	14.13%	10.86%
OW: overweight; UW: underweight; NH: no holding at month end position				Industrials	11.53%	16.39%
Top 10 Holdings				Communication Services	10.55%	9.86%
The A2 Milk	12.49%	Mainfreight	5.73%	Real Estate	9.21%	10.19%
Spark New Zealand	9.05%	Meridian Energy	5.18%	Consumer Discretionary	2.86%	3.41%
Fisher & Paykel Healthcare	8.90%	Infratil	4.94%	Energy	2.70%	2.30%
Contact Energy	8.15%	Summerset Group	4.92%	Information Technology	1.99%	1.51%
Auckland Int. Airport	5.80%	Metlifecare	4.64%	Materials	1.86%	3.59%
			Number of holdings	Cash	0.73%	0.00%
				Financials	0.00%	2.36%

Market Commentary

Equity markets performed strongly over the quarter. Ongoing underlying support from historically low interest rates helped equities push higher. Trade talks between China and the United States are neutral with the prospect of a phase 1 deal. As a result and some better economic data, concerns over the global growth outlook eased a little. The UK election delivered a clear Brexit mandate and conservative majority which should finally enable the UK to leave the European Union in the first quarter of 2020. The continued Hong Kong social unrest is in itself concerning for the world amplified by the US response that included the somewhat controversial passing of laws that appear to defend the liberty of Hong Kong citizens. Companies with September half year ends reported results during the quarter which on balance were in line with or better than expected although outlook statements were cautious. The Australian market performed very poorly versus the rest of the world in the quarter with banking sector woes continuing.

Fund Commentary

The largest contributors to performance were overweight positions in **Summerset (SUM)**, **Metlifecare (MET)** and **Ingenia Group (INA)**. MET rose 53% after receiving a takeover offer. The Board was successful in negotiating an improved price offer of \$7.00, which they recommended to shareholders, this compares to 30 September 2019 market price of \$4.46. The takeover sentiment and speculation gave a boost to the industry more broadly. This combined with improving housing market data and supported SUM rallying 34%. The positives were somewhat offset by our underweight holding in **Ryman Healthcare (RYM)**. INA continued their strong period of performance, delivering 24%, following the prior quarter of 26%. The market has developed greater confidence in their strategy execution and outlook. The largest negative contributors were overweight positions in **Contact Energy (CEN)** and **Z Energy (ZEL)**, and an underweight in RYM. During the quarter, electricity companies were weak because of Rio Tinto's announced review of their Tiwai Point Aluminium Smelter NZ operation. **Contact Energy (CEN)** fell 16.5%, detracting from relative performance. **Z Energy (ZEL)** negatively surprised the market again leading to an 18% decline. The company downgraded earnings forecasts, citing refinery earnings, retail competition and margin pressure.

Key portfolio changes over the quarter include the purchase of **Ebos Healthcare (EBO)** through a cornerstone sell-down, the introduction of **Kiwi Income Property (KIP)** and **Ryman Healthcare (RYM)** into underweight positions. Existing portfolio holdings in MET, MFT, ATM and RBD were increased in relative size. Several positions were divested, Viva Energy (VEA), Napier Port (NPH) and NZ Refining (NZR). Regarding existing portfolio companies, the following have had noteworthy decreases to relative size: FBU, IFT, and CNU. (**Bold** denotes stocks held in the 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	\$64.7m

Compliance

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

Contact Us www.nikkoam.co.nz | nzenquiries@nikkoam.com

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