

# NIKKO AM SRI EQUITY STRATEGY

Applies to: Nikko AM Wholesale SRI Equity Fund

## Market Overview

- Equity markets struggled for direction.
- The United States S&P 500 index lost 0.2%, the Japanese Nikkei 225 index fell 1.9%, the UK FTSE 100 index lost 3.4%, the Australian ASX 200 index was up 5.0% and the MSCI World index ended the month down 0.6%.
- The S&P/NZX 50 index gained 2.0% although was closed before the last day sell off of international markets.
- Bond yields fell in response to coronavirus concerns with the NZ Government 10-year bond ending the month at 1.3%, the Australian 10-year bond at 0.95% and US 10-year bond at 1.51%.

## Fund Highlights

- The fund produced a 2.5% positive absolute return.
- The largest positive attributors were overweight positions in Infratil (IFT) and Spark (SPK), in addition to nil holdings in restricted stock Sky City (SKC), as well as Port of Tauranga (POT) and Gentrack (GTK).
- The largest negative attributors was an underweight position in Fletcher Building (FBU) and overweight positions in Ingenia (INA) and Mainfreight (MFT).

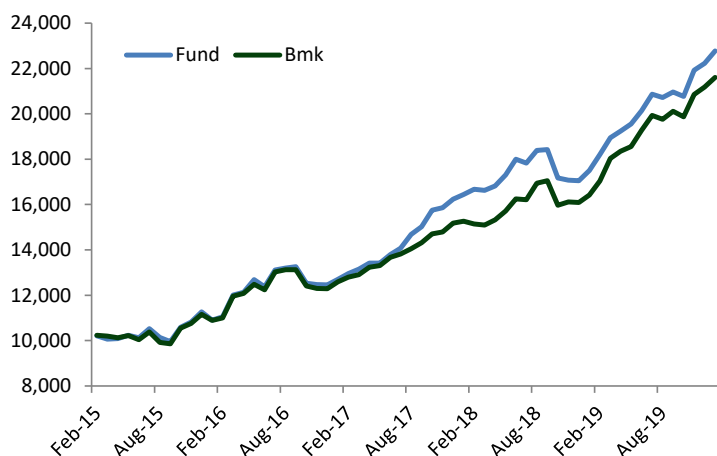
## Performance

	One month	Three months	One year	Three years (p.a)	Five years (p.a)	Ten years (p.a)
<b>Wholesale<sup>1</sup></b>	2.49%	9.65%	30.19%	21.52%	17.90%	15.67%
<b>Benchmark<sup>2</sup></b>	1.97%	8.73%	31.62%	19.74%	16.66%	15.11%

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 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.



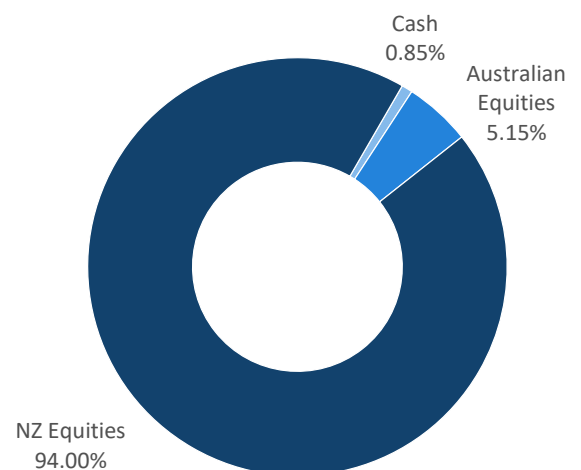
## Overview

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



NIKKO AM SRI EQUITY STRATEGY

Attribution to Performance				Sector Allocation			
What Helped:		What Hurt:		Fund	Benchmark		
Sky City Entertainment	NH	Fletcher Building	UW	Health Care	24.16%	23.32%	
Infratil	OW	Ingenia Commities	OW	Utilities	21.00%	18.51%	
Port of Tauranga	NH	Mainfreight	OW	Consumer Staples	14.11%	11.18%	
OW: overweight; UW: underweight; NH: no holding at month end position				Industrials	10.92%	14.99%	
Top 10 Holdings				Communication Services	10.83%	9.90%	
The A2 Milk Company	12.19%	Auckland Int. Airport	5.62%	Real Estate	8.67%	9.92%	
Spark New Zealand	9.30%	Meridian Energy	5.41%	Consumer Discretionary	2.68%	3.01%	
Fisher & Paykel Healthcare	9.12%	Mainfreight	5.30%	Energy	2.67%	1.75%	
Contact Energy	8.30%	Summerset Group	4.82%	Information Technology	2.11%	1.38%	
Infratil	6.33%	Ebos Group	3.90%	Materials	1.99%	3.89%	
			<b>Number of holdings</b>	<b>32</b>	Cash	0.85%	0.00%
				Financials	0.00%	2.15%	

**Market Commentary**

Equity markets were volatile over the period. The market rallied early in the month on trade optimism, with US and China signing a phase 1 trade deal yet subsequently softened into month end on fear regarding the coronavirus. Performance proved heterogeneous across geographic regions with Australasia doing very well, the US flat, while Europe and Asia performed poorly. The MSCI World index ended the month down 0.6%. The United States S&P 500 index pulled back marginally, losing 0.2%. UK FTSE 100 index lost 3.4%, while continental Europe also fell with the Stoxx 50 down 2.7%. Asian markets were weak in general. Japanese Nikkei 225 index fell 1.9%. However the Australasian markets posted strong gains. The S&P/NZX 50 index gained 2.0% and the Australian ASX 200 index was up 5.0%. Although, the two indices benefited from their global time zone, having already closed before the heavy final day sell-off, which marred international markets' January performance. Bond yields fell sharply. On global developments, the US Senate continued the impeachment process. US earnings results were generally positive The United Kingdom's exit from the European Union became official as of 11pm 31 January. Geopolitical tensions and civil unrest remained highly topical, while concern over the extremely contagious coronavirus escalated exponentially into month end.

**Fund Commentary**

The fund produced a 2.5% positive absolute return for January. The largest positive attributors were overweight positions in **Infratil** (IFT) and **Spark** (SPK), in addition to nil holdings in restricted stock Sky City (SKC), as well as Port of Tauranga (POT) and Gentrack (GTK). IFT rose 7.5% benefiting from a large revaluation of its Canberra Data Centre investment. SPK rose 7.6% rebounding from a weak December. POT fell 4.7% with concern over potential earnings impact from the coronavirus outbreak. Earnings downgrades pushed GTK lower, falling a further 5.2%. The largest negative attributors were underweight position in **Fletcher Building** (FBU) and overweight positions in **Ingenia** (INA) and **Mainfreight** (MFT). FBU continues to recover off its lows with improved confidence in industry conditions. INA announced that they expect a negative impact from the Australian bushfires, although modest and one-off in nature, the stock pulled back by 3.6%. MFT sold-off 2.4% on coronavirus concern.

Key portfolio changes in the month included adding **Oceania Healthcare** (OCA) to the fund via a liquidity event and exiting Pacific Edge (PEB).

(**Bold** denotes stocks held in the 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	\$66.26m

**Compliance**

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

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