

Factsheet 29 February 2020

# NIKKO AM SRI EQUITY STRATEGY

Applies to: Nikko AM Wholesale SRI Equity Fund

## Market Overview

- COVID-19 fears saw equity markets sell off sharply and bond yields rally around the globe.
- The United States S&P 500 index lost 8.4%, the Japanese Nikkei 225 index fell 8.9%, the UK FTSE 100 index lost 9.7%, while the Australian ASX 200 index fell 7.7% and the MSCI World index ended the month down 8.2% in local terms.
- The S&P/NZX 50 index fell 3.9% to materially outperform our international peers.
- Bond yields fell in response to coronavirus concerns with the NZ 10-year bond ending the month at 1.05%, the Australian 10-year bond at 0.82% and US 10-year bond at 1.15%.

## Fund Highlights

- The fund ended the month down 3.34%.
- Key positions that added value included an overweight in A2 Milk (ATM), in addition to a nil holding in Air NZ (AIR), and Port of Tauranga (POT).
- Key positions that detracted value included an underweight position in Fisher & Paykel Healthcare (FPH), in addition to overweights in Summerset (SUM) and Contact (CEN).

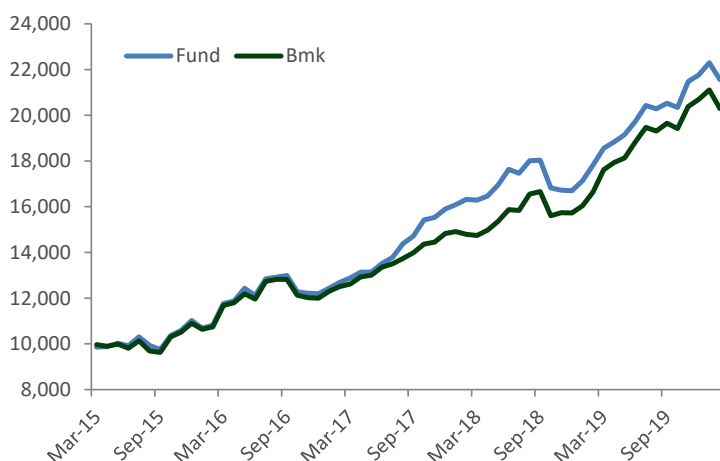
## Performance

	One month	Three months	One year	Three years (p.a)	Five years (p.a)	Ten years (p.a)
Wholesale <sup>1</sup>	-3.34%	0.41%	20.92%	19.35%	16.61%	15.32%
Benchmark <sup>2</sup>	-3.86%	-0.40%	21.90%	17.51%	15.21%	14.69%

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.



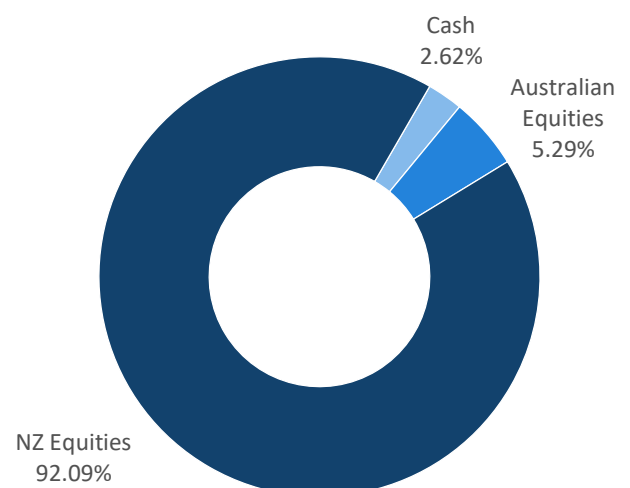
## Overview

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



Attribution to Performance				Sector Allocation		
What Helped:		What Hurt:		Fund	Benchmark	
The A2 Milk Company	OW	Fisher & Paykel Healthcare	UW	Health Care	24.30%	24.91%
Air New Zealand	NH	Summerset Group	OW	Utilities	19.75%	17.36%
Port of Tauranga	NH	Contact Energy	OW	Consumer Staples	15.15%	12.16%
OW: overweight; UW: underweight; NH: no holding at month end position				Communication Services	11.25%	10.09%
Top 10 Holdings				Real Estate	8.83%	10.10%
The A2 Milk Company	13.31%	Meridian Energy	5.01%	Industrials	8.62%	13.77%
Fisher & Paykel Healthcare	10.44%	Auckland Int. Airport	4.54%	Materials	2.92%	3.78%
Spark New Zealand	9.72%	Summerset Group	4.37%	Cash	2.62%	0.00%
Contact Energy	8.22%	Mainfreight	4.08%	Consumer Discretionary	2.46%	2.84%
Infratil	5.62%	Ebos Group	3.48%	Energy	2.10%	1.61%
			<b>Number of holdings fund</b>	Information Technology	2.00%	1.28%
				Financials	0.00%	2.10%

## Market Commentary

Regional concerns around the coronavirus COVID-19 escalated into global panic. The herd mentality overwhelmed all other investment news as the market experienced a GFC style sell-off. The primary offending catalyst was likely the spread of the virus more broadly into western nations, in particular, gaining traction in the U.S. and moving deeper into western Europe and the UK. Prior to this, there was some hope in the market that China containment would halt the issue at the country or regional level. If this were the case, then major negative outcome would be supply-side challenges for western companies, sourcing components, raw materials etc., thus inconvenient but not devastating. Unfortunately, this hypothesis appears to be incorrect and is now shifting beyond only supply-side concerns, to a paradigm that entails a severe hit to the demand-side of the west as well.

Countries around the world have been announcing their respective policies aimed at containing the virus' spread. There remains a great deal of economic uncertainty around the magnitude, breadth and longevity of the issue. Investment markets, central banks and governments are now digesting the negative economic growth implications, with initial policy responses emerging.

## Fund Commentary

The fund ended the month down 3.34%. Key positions that added value included an overweight in **A2 Milk** (ATM), in addition to a nil holding in Air New Zealand (AIR) and Port of Tauranga (POT). ATM rallied by 8% while the broader market fell. The company produced a strong half-year earnings result ahead of market expectations, and in addition, provided positive commentary regarding their ability to continue to satisfy Chinese consumer demand for their product. Nil holdings in AIR (down 20%) and POT (down 14%) added value. The falls relate to their direct reliance on trade and travel against a backdrop of the disruption surrounding the COVID-19 viral outbreak. An underweight position in **Fisher & Paykel Healthcare** (FPH), in addition to overweights in **Summerset** (SUM) and **Contact Energy** (CEN) detracted from value.

Key portfolio changes in the month included exiting a small holding in Serko. Adding to **Fletcher Building** (FBU), **Ryman Healthcare** (RYM), CEN and **Spark New Zealand** (SPK). While reducing **Metlifecare** (MET), **Mainfreight** (MFT), **Z Energy** (ZEL) and **Auckland International Airport** (AIA). (Bold denotes stocks held in the portfolio)

## Key Fund Facts

### Distributions

Calendar quarter.

### Estimated annual fund charges

Wholesale: negotiated outside of fund

### Hedging

Foreign currency exposures may be hedged to NZD at the Manager's discretion within an operational range of 0% to 105%.

### Buy / Sell spread:

0.29% / 0.29%

### Strategy Launch Date

January 2008

### Strategy size

\$64.06m

Currently the fund's foreign currency exposure is unhedged.

## Compliance

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

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