

Factsheet 31 March 2020

NIKKO AM SRI EQUITY STRATEGY

Applies to: Nikko AM Wholesale SRI Equity Fund

Market Overview

- The global response to COVID-19 saw equity markets sell off sharply and bond yields rally around the world.
- Over the quarter the US S&P 500 index lost 20.0%, the Japanese Nikkei 225 index fell 20.0%, the UK FTSE 100 index lost 24.8%, while the Australian ASX 200 index fell 23.4% and the MSCI World index ended the quarter down 19.5% (in local currency).
- The S&P/NZX 50 index fell 14.6% although the spread between large capitalisation stocks (top 10) and small capitalisation stocks was significant with large cap stocks down 7.5% vs small caps down 34.0%.

Fund Highlights

- The fund ended the quarter down 11.3%, 3.2% ahead of the index.
- Key positions that added value included an overweight in A2 Milk (ATM), and nil holdings in both Air New Zealand (AIR NZ) and restricted SkyCity Entertainment (SKC).
- Key positions that detracted value included an overweight in Summerset (SUM) and Restaurant Brands (RBD) and an underweight in Fisher & Paykel Healthcare (FPH).

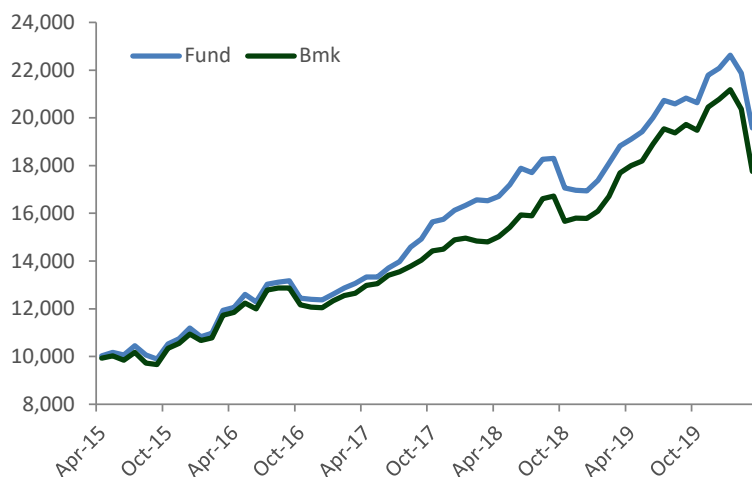
Performance

	One month	Three months	One year	Three years (p.a)	Five years (p.a)	Ten years (p.a)
Wholesale¹	-10.51%	-11.34%	4.00%	14.42%	14.38%	13.60%
Benchmark²	-12.83%	-14.55%	0.36%	11.95%	12.17%	12.73%

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.



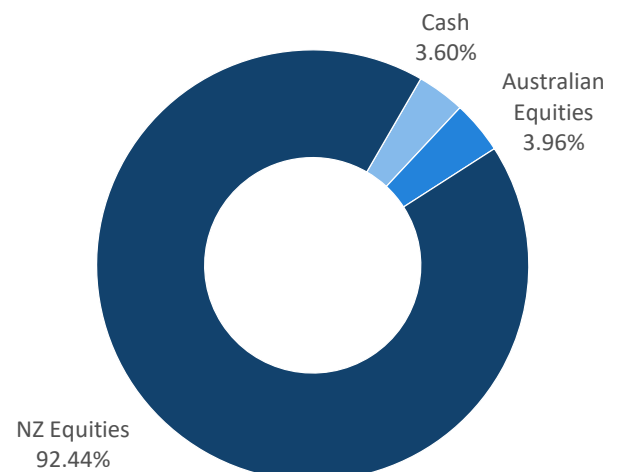
Overview

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



NIKKO AM SRI EQUITY STRATEGY

Attribution to Performance				Sector Allocation		
What Helped:		What Hurt:		Fund	Benchmark	
The A2 Milk Company	OW	Summerset Group	OW	Health Care	23.87%	27.74%
SkyCity Entertainment	NH	Fisher & Paykel Healthcare	UW	Utilities	18.68%	17.20%
Air New Zealand	NH	Restaurant Brands	OW	Consumer Staples	18.63%	14.74%
OW: overweight; UW: underweight; NH: no holding at month end position				Communication Services	14.54%	10.84%
Top 10 Holdings				Real Estate	6.79%	9.28%
Fisher & Paykel Healthcare	15.70%	Infratil	4.98%	Industrials	6.24%	11.50%
The A2 Milk Company	14.98%	Chorus	4.06%	Cash	3.59%	0.00%
Spark New Zealand	10.34%	EBOS Group	3.68%	Materials	2.90%	2.96%
Contact Energy	7.26%	Mainfreight	3.20%	Information Technology	2.44%	0.97%
Meridian Energy	5.46%	Auckland Int. Airport	3.03%	Energy	1.33%	1.32%
Number of holdings fund				Consumer Discretionary	0.99%	1.80%
				Financials	0.00%	1.65%

Market Commentary

The investment landscape changed rapidly over Q12020 as concern around Covid-19 has continued its spread across the globe. On 11th March, the WHO's risk-assessment concluded a reclassification of the outbreak from epidemic to pandemic. Government attempts to control the outbreak increasingly involved imposing self-isolation on residents and closing non-essential businesses, further crippling economic activity, curtailing global trade, shattering business and consumer confidence. In NZ, the RBNZ cut the Official Cash Rate (OCR) from 1.0% to 0.25%, with scope to enact quantitative ease (QE) as preference to any further cuts. In addition to a ~\$12 billion fiscal package designed to deliver targeted and broad-based economic stimulus. Looking forward, the market appears to have moved through the initial dislocation phase and with the support of unprecedented Government intervention, the extreme, irrational moves have eased somewhat. Nevertheless, over the short-term, volatility continues. Longer-term, the indiscriminate market repricing of the equity market has created pockets of inefficiency, with certain, high quality companies now trading at prices significantly beneath that which reflects fair value and true earnings potential.

Fund Commentary

The fund ended the quarter down 11.3% but ahead of benchmark. The fund was generally underweight companies considered as potentially most directly impacted by Covid-19. This included a nil holding in: Air NZ, Port of Tauranga, Synlait, Freightways, Tourism Holdings, Vista Group, Scales Corp, Fonterra. **Auckland Intl. Airport** was held as an underweight position and the holding has since been reduced further. The company already faced increasing operational challenges and their issues were compounded by Covid-19 travel restrictions.

The fund held overweight positions in **A2 Milk**, **Sanford** (generally unchanged) and **Mainfreight** (reduced). Of these, we see A2 as a medium-term beneficiary and remain comfortable with our position. Sanford is mixed with overs and unders in the near-term but overall judge there to be scope for them to emerge from the market crises in a winning position. The Mainfreight position was reduced meaningfully but remains overweight. Despite representing a high quality global growth stock with potential for market share gains, the growth trajectory is acutely challenged by the declining levels of economic activity and potential for this to get much worse. Key portfolio changes in the quarter included adding a new investment position in **Scales Corp** (SCL). Also implementing meaningful increases in **Chorus** (CNU), **Spark** (SPK), **Sanford** (SAN), **Pushpay** (PPH), **Fletcher Building** (FBU), **Infratil** (IFT), **Meridian** (MEL), **Investore Property** (IPL) and **Fisher & Paykel Healthcare** (FPH). In addition, exiting Kiwi Property Group (KPG), implementing meaningful decreases in **Auckland Intl. Airport** (AIA), **Metlifecare** (MET), **Z Energy** (ZEL), **Summerset** (SUM), **Stride** (SPG), **Restaurant Brands** (RBD) and **Mainfreight** (MFT).

(**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	\$60.06m

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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