

Factsheet 31 July 2020

NIKKO AM SRI EQUITY STRATEGY

Applies to: Nikko AM Wholesale SRI Equity Fund

Market Overview

- Equity markets performed well in July, continuing the strong run of performance from March lows.
- The MSCI World index ended the month up 4.0%. The United States S&P 500 index rose 5.5%, the Japanese Nikkei 225 index was down 2.6%, the UK FTSE 100 index lost 4.4%, the Australian ASX 200 index increased 0.5%.
- The S&P/NZX 50 index performed well, ending the month up 2.5%. The New Zealand market is now in positive territory year to date.

Fund Highlights

- The fund produced a positive 3.30% absolute return for the month.
- Overweight positions in Summerset, Mainfreight and NextDC added value.
- An overweight position in Contact Energy; and nil holdings in Goodman Property and Precinct Property detracted value.

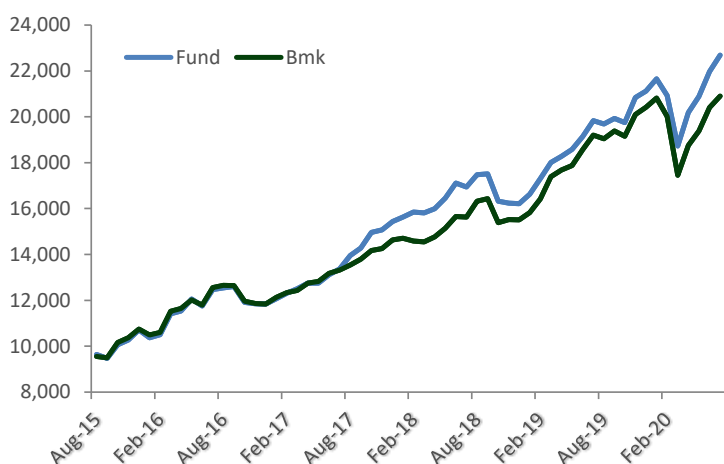
Performance

	One month	Three months	One year	Three years (p.a)	Five years (p.a)	Ten years (p.a)
Wholesale¹	3.30%	12.45%	14.44%	19.28%	17.81%	16.67%
Benchmark²	2.45%	11.43%	8.84%	16.21%	15.89%	15.64%

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



Responsible for the SRI Equity Fund. Covers the Consumer Discretionary and Consumer Staples sectors. Over nine years of experience in the finance industry including ANZ Institutional Bank and Fortis Investments. Michael holds a First Class Honours degree in Industrial Economics from the University of Nottingham Business School, United Kingdom. Joined in 2012.

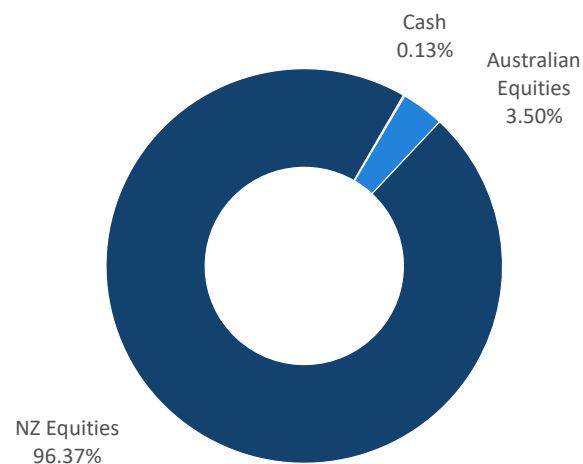
Overview

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	OW	Health Care	26.25%	27.52%
Mainfreight	OW	Goodman Property	NH	Utilities	17.19%	16.14%
NextDC	OW	Precinct Properties	NH	Consumer Staples	16.51%	14.37%
OW: overweight; UW: underweight; NH: no holding at month end position				Communication Services	12.51%	10.36%
Top 10 Holdings				Industrials	10.32%	13.91%
Fisher & Paykel Healthcare	16.80%	Infratil	4.98%	Real Estate	6.60%	8.63%
The A2 Milk Company	14.02%	Contact Energy	4.89%	Materials	2.37%	2.30%
Spark New Zealand	9.00%	Mainfreight	4.53%	Information Technology	3.69%	1.54%
Auckland Int. Airport	5.79%	Summerset Group	3.32%	Consumer Discretionary	1.84%	2.30%
Meridian Energy	5.25%	Chorus	3.23%	Energy	2.58%	1.27%
			Number of holdings fund	Cash	0.14%	0.00%
				Financials	0.00%	1.66%

Market Commentary

The market has been focused on assessing generally better-than-estimated economic data alongside significant monetary and fiscal support, amid escalating Covid-19 cases globally and stumbling containment measures. This is occurring against a backdrop of intensifying geopolitical tensions between the U.S. and China, and the US political cycle in full swing. It seems that the market in general has some comfort looking through the ramifications derived from COVID-19 with the presumption a safe and effective vaccine will arrive in the not too distant future. Consequently, risk relates to this failing to eventuate as expected. Despite the uncertainty, low interest rates are leading some investors to allocate to the equity markets in search of adequate returns. Locally, during July, the electricity sector was surprised by the NZ Aluminium Smelter announcing they would close in August 2021, the shortest notice period possible, although there seems to be some scope for a more prolonged exit which would give the industry more time to adjust accordingly. Looking forward, a large number of NZ companies will be reporting their earnings results for the year ending June 2020, during August. This will provide information regarding recent trading performance and insight into management confidence concerning the near term outlook. Furthermore, attention is increasingly focused on upcoming elections, both in New Zealand and the United States and policies that could impact on sectors and stocks.

Fund Commentary

The fund produced a positive 3.30% absolute return for the month. The largest positive relative returns were from overweight positions in **Summerset** (SUM), **Mainfreight** (MFT) and **NextDC** (NXT). SUM rose 21.5% over the month after announcing good sales numbers for the June quarter and investors became more optimistic around the outlook for house prices. MFT rose +20.4%, after the AGM revealed their Australian pre-tax profit more than doubled in its first 17 weeks of trading as it grabbed market share across the Tasman. NXT rose +15.3% after significant contract commitment wins for its NSW data centre facilities.

The largest negative relative returns were from an overweight position in **Contact Energy** (CEN) and nil holdings in Goodman Property (GMT) and Precinct Property (PCT). CEN fell 6.7%, having been impacted by the aluminium smelter closure notice. GMT rose 9.4% and PCT 9.2% as the listed property sector benefited from increased investor allocation rotating out of the troubled electricity sector.

Key portfolio changes during the month included a new investment into **Waypoint REIT** and participating in a sell down in **Pushpay Holdings** (PPH) from an existing holder. In addition there were increases in **Metlifecare** (MET), **Ryman Healthcare** (RYM), **Stride Stapled Group** (SPG) and **Fisher & Paykel Healthcare** (FPH); and decreases in **Infratil** (IFT) and **Sanford** (SAN). (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	\$73.0m

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

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