

Factsheet 31 August 2020

# NIKKO AM SRI EQUITY STRATEGY

Applies to: Nikko AM Wholesale SRI Equity Fund

## Market Overview

- Supported by low interest rates, equity markets globally performed strongly during the month.
- The MSCI World index ended the month up 6.1%.
- The United States S&P 500 index rose 7.0%, the Japanese Nikkei 225 index was up 6.6% and the UK FTSE 100 index added 1.1%.
- The S&P/NZX 50 index was a relative underperformer versus the world albeit ended the month up 1.8%, while the Australian ASX 200 index increased 2.8%.

## Fund Highlights

- The fund produced a positive 1.82% absolute return for the month.
- Overweight positions in EROAD, Contact Energy and Investore Property added value.
- An overweight position in A2 Milk and nil holdings in Vector and Vista Group detracted value.

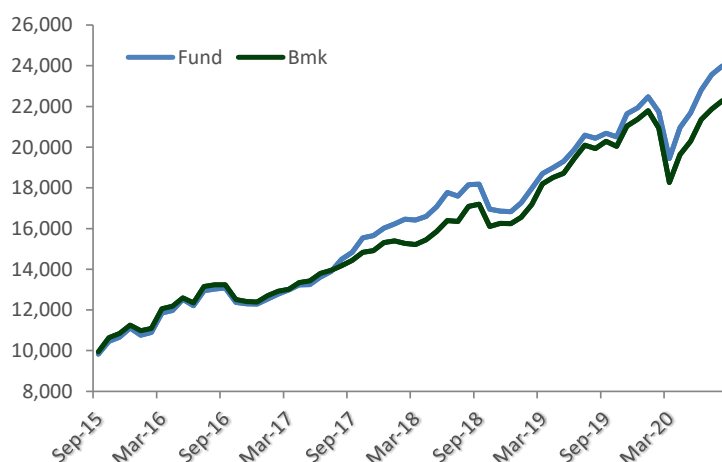
## Performance

	One month	Three months	One year	Three years (p.a)	Five years (p.a)	Ten years (p.a)
<b>Wholesale<sup>1</sup></b>	1.82%	10.63%	17.35%	18.31%	19.13%	16.95%
<b>Benchmark<sup>2</sup></b>	1.82%	9.81%	11.77%	16.27%	17.37%	15.84%

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**



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.

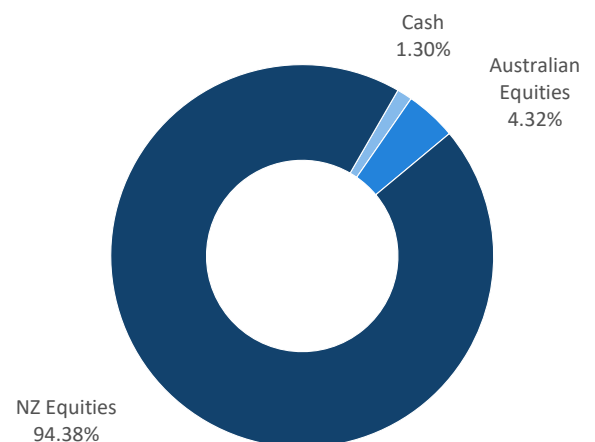
## Overview

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



## NIKKO AM SRI EQUITY STRATEGY

Attribution to Performance				Sector Allocation		
What Helped:		What Hurt:		Fund	Benchmark	
EROAD	OW	The A2 Milk Company	OW	Health Care	25.33%	27.84%
Contact Energy	OW	Vector	NH	Utilities	17.62%	16.86%
Investore Property	OW	Vista Group	NH	Consumer Staples	15.37%	12.70%
OW: overweight; UW: underweight; NH: no holding at month end position				Communication Services	12.81%	10.42%
Top 10 Holdings				Industrials	10.00%	14.08%
Fisher & Paykel Healthcare	16.91%	Contact Energy	5.33%	Real Estate	7.45%	8.75%
The A2 Milk Company	13.04%	Infratil	4.56%	Information Technology	4.08%	1.75%
Spark New Zealand	8.91%	Mainfreight	4.40%	Energy	2.30%	1.19%
Auckland Int. Airport	5.60%	Chorus	3.60%	Materials	2.10%	2.40%
Meridian Energy	5.36%	Summerset Group	3.33%	Consumer Discretionary	1.66%	2.35%
<b>Number of holdings fund</b>				Cash	1.28%	0.00%
				Financials	0.00%	1.66%

## Market Commentary

The US Federal Reserve has signalled a major shift in its approach to managing inflation, as it tries to do more to aid the US economic recovery. The central bank will now target an 'average' 2% inflation rate, rather than making 2% a fixed goal. In doing so, it is hoped that this will allow them to keep interest rates lower for longer, stimulating economic growth and helping to tackle unemployment. Supported by the prospect of a more enduring low interest rate environment, equity markets globally produced strong performance during the month and subordinated ongoing concerns around the health and economic impacts from COVID-19. A number of NZ companies report their earnings results in August (for the period ending June). As expected, results were heavily impacted by the lockdown earlier in the year. Outlook statements were very uncertain and amplified due to the country's return to lockdown or L2 restrictions during the month. As a result of this most recent set-back, the New Zealand election has been postponed from September to October.

## Fund Commentary

The fund produced a positive 1.82% absolute return for the month. The largest positive relative returns were from overweight positions in **EROAD** (ERD), **Contact Energy** (CEN) and **Investore Property** (IPL). ERD rose 23.2%. The company's AGM, reaffirmed that despite economic uncertainty, they remained well positioned. Subsequently, in August, a domestic broking house initiated research coverage of ERD with a supportive rating. CEN recovered from its drawdown in July, rising 11.9% in August as the market digested the potential that the NZ Aluminium Smelter may push out its closure date. IPL continues to benefit from its defensive property portfolio which is occupied by essential businesses such as Countdown, Foodstuffs, Mitre 10 and Bunnings. IPL ended the month up 10.6%. The largest negative relative returns were from an overweight position in **A2 Milk** (ATM) and nil holdings in Vector and Vista Group. Despite reporting very strong earnings growth, ATM fell 10.8% given the result was a touch lower than market expectations and was also impacted by an MSCI index down weight at the end of the month. VCT rose +15.2% after delivering a steady result in spite of COVID-19. VGL produced a poor result due to COVID-19, however this was better than market expectations and as result rose by 43%.

The funds holding in Metlifecare (MET) was divested. The fund increased several positions meaningfully, which included in **Waypoint REIT** (WPR), **NextDC** (NXT), **Ingenia Communities** (INA), **Ryman Healthcare** (RYM) and **EBOS Group** (EBO), while reduced positions meaningfully in **Fletcher Building** (FBU), **Michael Hill** (MHJ), **Restaurant Brands** (RBD) and **Infratil** (IFT). (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	\$74.3m

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

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