

Factsheet 30 September 2020

NIKKO AM SRI EQUITY STRATEGY

Applies to: Nikko AM Wholesale SRI Equity Fund

Market Overview

- Most equity markets performed strongly during the quarter. The MSCI World index ended the period up 6.5%
- The United States S&P 500 index rose 8.5% and the Japanese Nikkei 225 index was up 4.0%. While European markets struggled with the UK FTSE 100 index down 4.9% and the Euro Stoxx 50 also falling by 1.3%
- The S&P/NZX 50 index ended the quarter up 2.9% and is up 2.8% on a calendar year-to-date basis, while the Australian ASX 200 index finished the quarter relatively flat, falling 0.4%

Fund Highlights

- The fund produced a positive 3.1% return for the quarter.
- Overweight positions in Summerset, EROAD and Investore Property added value relative to benchmark.
- An overweight position in A2 Milk; and nil holdings in Goodman Property and SkyCity detracted value relative to the benchmark.

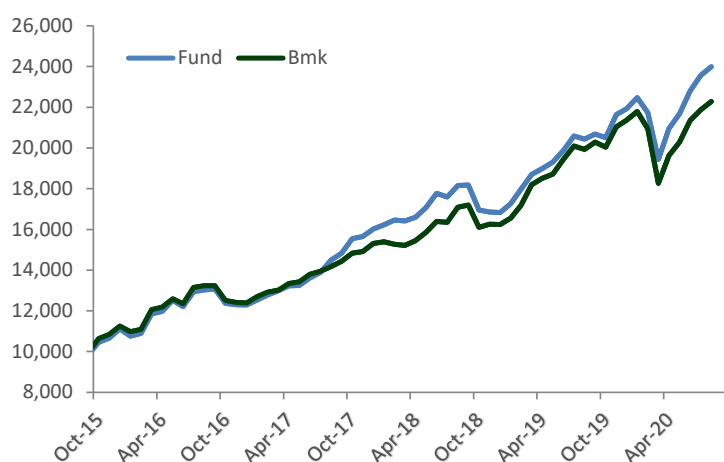
Performance

	One month	Three months	One year	Three years (p.a)	Five years (p.a)	Ten years (p.a)
Wholesale ¹	-1.97%	3.11%	13.67%	16.62%	19.07%	16.06%
Benchmark ²	-1.41%	2.86%	8.26%	15.02%	17.18%	15.15%

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.

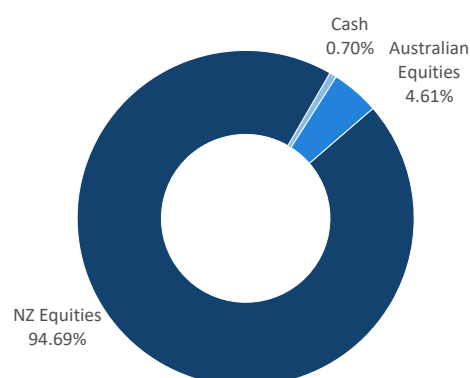
Overview

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 (q (quar				Sector Allocation		
		What Hurt:		Fund	Benchmark	
What Helped:		What Hurt:		Health Care	25.17%	27.06%
Summerset	OW	The A2 Milk Company	OW	Utilities	19.00%	17.16%
Investore Property	OW	SkyCity Entertainment	NH	Consumer Staples	13.68%	10.91%
EROAD	OW	Goodman Property Trust	NH	Communication Services	13.10%	10.47%
OW: overweight; UW: underweight; NH: no holding				Industrials	10.35%	14.92%
Top 10 Holdings				Real Estate	7.50%	2.85%
Fisher & Paykel Healthcare	16.09%	Meridian Energy	5.63%	Information Technology	4.69%	1.17%
The A2 Milk Company	11.28%	Infratil	4.72%	Energy	2.19%	2.13%
Spark New Zealand	9.20%	Mainfreight	4.24%	Materials	1.97%	2.61%
Auckland Int. Airport	6.12%	Chorus	3.68%	Consumer Discretionary	1.65%	9.03%
Contact Energy	5.87%	Summerset Group	3.61%	Cash	0.70%	0.00%
				Financials	0.00%	1.69%
				Number of holdings fund	30	

Market Commentary

The US Federal Reserve signaled a major shift in its approach to managing inflation which should allow them to keep interest rates lower for longer, with the aim of stimulating economic growth. Supported by the prospect of a more enduring low interest rate environment, equity markets globally produced strong performance during the quarter 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 August. Around the world, the monetary and fiscal response from governments and central banks has been truly incredible in size and scope. This has continued to evolve and expand to counter the adverse impacts from the crises. Attention is now increasingly focused on upcoming elections, both in New Zealand and the United States.

Fund Commentary

The fund produced a positive 3.1% return for the quarter. The largest positive relative returns were from overweight positions in **Summerset**, **EROAD** and **Investore Property**. SUM rose 40.1% over the quarter after announcing a good sales number for the June quarter, followed by a solid 1H result considering the circumstances arising from COVID-19. Furthermore investors have become more optimistic around the outlook for NZ house prices. ERD rose 33.4% over the quarter. ERD held their AGM on 30 July 20, reaffirming that despite economic uncertainty ERD is well positioned. In August, a domestic broking house initiated coverage on ERD with a 'buy' rating. The company subsequently obtained a secondary listing on the ASX with an accompanying equity raise to fund product development. IPL rose 21.3% over the quarter as the company continues to benefit from its defensive property portfolio which is occupied by essential businesses such as Countdown, Foodstuffs, Mitre 10 and Bunnings. The largest negative relative returns were from an overweight position in **A2 Milk** and nil holdings in Goodman Property and restricted SkyCity. ATM fell 24% over the quarter. ATM reported a very strong full-year result which entailed significant earnings growth. The company revealed plans to continue its push into China and North America and expand its product portfolio in 2021. However, the shares have since sold-off after the company warned of a substantial hit to first half profits arising from a slump in the export trade out of Victoria, where activity is constrained by the COVID-19 lockdown. The company believes it is a logistical issue with regard to their reseller channel while other channels to China continue to perform as expected. GMT rose 16.5% over the quarter. The listed property sector benefited from increased investor allocation as attractive dividend yields gained more focus alongside some rotation out of the troubled electricity sector. Restricted stock SKC rose 24.7% over the quarter.

Key portfolio changes during the quarter included a new investment into **Waypoint REIT**, while the fund's holding in Metlifecare was divested. The fund increased several positions meaningfully, which included in **Orocobre** as part of their equity raising, **Pushpay**, **Ryman**, **Ingenia**, **Mercury** and **Stride**. The fund reduced several positions, which included **Fletcher Building**, **Sky TV**, **Michael Hill**, **Z Energy**, **Infratil**, **Sanford**, **Restaurant Brands** and **Investore**. (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

\$69.7m

Currently the fund's foreign currency exposure is unhedged.

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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