

Factsheet 31 October 2021

NIKKO AM SRI EQUITY STRATEGY

Applies to: Nikko AM Wholesale SRI Equity Fund

Market Overview

- Global equity markets were mostly positive over the month. Inflation has become front of mind with central banks. The Reserve Bank of New Zealand has become one of the first to increase rates with the official cash rate doubled during the month to 50bps. Bonds yields also increased significantly over the month.
- The United States S&P 500 index rose 6.9%, the Japanese Nikkei 225 index fell 1.9%, the UK FTSE 100 index increased 2.1%, the Australian ASX 200 index declined 0.1% and the MSCI World index ended the month up 5.0%.
- The S&P/NZX 50 index ended the month down 1.3%.

Fund Highlights

- The fund produced a negative 1.4% absolute return for the month.
- Overweight positions in Michael Hill, Infratil and Z Energy added value.
- A zero holding in Goodman Property, and overweight positions in Summerset and EROAD detracted value.
- The fund participated in the initial public offering of Vulcan Steel and the \$330m capital raising by Arvida.

Performance

	One month	Three months	One year	Three years (p.a)	Five years (p.a)	Ten years (p.a)
Wholesale ¹	-1.40%	4.51%	11.09%	16.70%	16.85%	17.58%
Benchmark ²	-1.33%	4.26%	9.08%	15.23%	14.52%	15.93%

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.

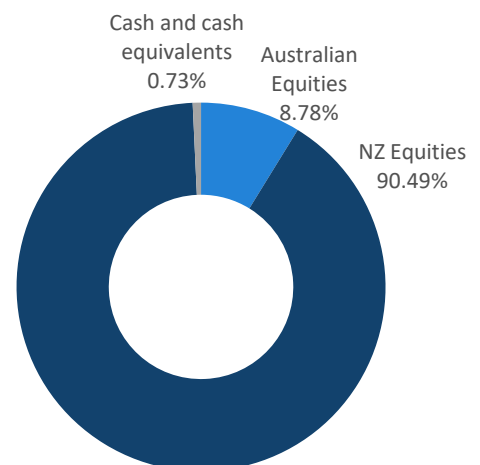
Overview

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. The fund excludes any company that derives more than 10% of its revenue from alcohol, pornography, gambling, tobacco and extraction of thermal coal and tar sands oil. There is a full ban on controversial weapons.

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 (for the month) *				Sector Allocation (as at month end)	Fund	Benchmark
What Helped:		What Hurt:		Health care	28.22%	26.66%
Michael Hill	OW	Goodman Property	NH	Industrials	20.03%	22.67%
Infratil Ltd	OW	Summerset Ltd	OW	Utilities	18.24%	19.06%
Z Energy	OW	EROAD	OW	Communication services	10.46%	8.79%
OW: overweight; UW: underweight; NH: no holding. *excludes restricted stocks				Real estate	6.66%	9.07%
Top 10 Holdings (at month end)				Information technology	4.44%	2.23%
Fisher & Paykel Healthcare	13.77%	Fletcher Building	5.75%	Consumer staples	3.70%	5.05%
Spark New Zealand Ltd	7.03%	Auck. Int Airport	5.69%	Consumer discretionary	2.71%	2.98%
Mainfreight Limited	6.72%	EBOS Group Ltd	4.83%	Financials	2.47%	2.08%
Infratil Limited	6.27%	Summerset Ltd	4.70%	Energy	2.34%	1.41%
Contact Energy Limited	5.97%	Meridian Energy	3.67%	Cash and cash equivalents	0.73%	0.00%
				Number of holdings	39	50

Market Commentary

Global equity markets were mostly positive over the month. Inflation has become front of mind with central banks signalling the prospect of earlier than previously expected increases in official cash rates. The Reserve Bank of New Zealand has become one of the first to increase rates with the official cash rate doubled during the month to 50bps. Bond yields also increased significantly over the month with the New Zealand 10-year rising from 2.09% to end the month at 2.64% and the Australian 10-year ending October at 2.09% from 1.49% at the end of September. At this stage the yield movement hasn't materially been reflected in equity markets and we will continue to adjust portfolio positions to account for the move up in rates.

Fund Commentary

The fund produced a negative 1.4% absolute return for the month. The largest positive relative returns were from overweight positions in Michael Hill (MHJ), Infratil (IFT) and Z Energy (ZEL). MHJ up 12.2%, provided a highly encouraging trading update. When considering the challenges that COVID-19 lockdowns present to traditional retailers, the company continues to perform exceptionally well. This has been driven by a combination of impressive profit margin expansion, focused cost control, digital growth and strong same store sales. IFT up 4.0%, Infratil have been driving the inorganic growth profile of the business. They announced a ~NZ\$240mn investment in UK-based data centre company Kao Data. In addition, Infratil are also buying a majority stake in Auckland Radiology Group for NZ\$30–60mn which will complement existing investments in radiology chains Qscan and Pacific Radiology Group. ZEL up 5.3%, the board of Z Energy unanimously approved a takeover by ASX-listed Ampol via a scheme of arrangement. The largest negative relative returns were from a zero holding in Goodman Property (GMT), and overweight positions in Summerset (SUM) and EROAD (ERD). GMT up 2.7%, supported following a positive portfolio revaluation. SUM down 4.5%, residential property market sentiment has been somewhat challenged of late, driven by a number of factors such as increasing mortgage rates and the introduction of loan to income limits by some banks. Therefore, leading some investors to consider if and to what extent this may impact house prices, and any potential implications for the retirement village sector. Furthermore, SUM would have likely suffered as a funding stock for the ARV capital raising. ERD down 8.0%, regulatory uncertainty continued for EROAD and Coretex as the Commerce Commission identified competition concerns with its planned merger. Although, this relates to Coretex's New Zealand business which could potentially be sold if necessary, noting the value proposition of the merger centered on the combined US operations. The company updated the market revealing that the delay alongside softer trading in the US, due to COVID disruption, has reduced the anticipated rate of revenue growth for FY22. Key portfolio changes during the month included adding Vulcan Steel (VSL) and Arvida (ARV) through their capital raisings. Positions in Pacific Edge (PEB), A2 Milk (ATM) and Chorus (CNU) were increased. Positions in Serko (SKO), Stride (SPG) and Sydney Airport (SYD) were reduced.

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	\$69.6m

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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