

Factsheet 30 September 2022

NIKKO AM SRI EQUITY STRATEGY

Assets are held in the Nikko AM Wholesale SRI Equity Fund. The Nikko AM SRI Equity Fund (retail) and the Nikko AM KiwiSaver SRI invest in units in the wholesale fund, which the commentary refers to.

Market Overview

- Global equity markets sold off over the quarter driven by earnings season, continued inflation concerns and bond yield movements.
- Over the quarter the US 10-year bond yield rose 82bps, the New Zealand 10-year yield increased 44bps, the Australian 10-year added 23bps while the UK 10-year jumped 186bps.
- The United States S&P 500 index fell 5.3%, the Japanese Nikkei 225 index declined 1.7%, the UK FTSE 100 index lost 3.8%, the Australian ASX 200 index rose 0.4% and the MSCI World index ended the quarter down 4.9%.
- The S&P/NZX 50 index ended the quarter up 2.2%.

Fund Highlights

- The fund ended the quarter up 2.5%, slightly ahead of the index return.
- A number of companies reported results for the period ended June.
- There were several investor days during the quarter with the likes of Fletcher Building and Channel Infrastructure providing positive updates.
- Vulcan Steel announced the acquisition of Ullrich Aluminium while Spark and Vodafone both announced the partial sale of their cell tower assets for attractive values.
- Overweight positions in Infratil, Michael Hill and a nil holding in restricted Sky City added value.
- Overweight positions in Restaurant Brands, Ramsay and Pushpay detracted from value.

Performance

	One month	Three months	One year	Three years (p.a)	Five years (p.a)	Ten years (p.a)
Wholesale ¹	-4.53%	2.49%	-14.18%	4.25%	9.59%	14.36%
Benchmark ²	-4.32%	2.17%	-15.97%	1.14%	7.77%	12.35%
Retail ³	-4.86%	1.92%	-	-	-	-
KiwiSaver ^{3,4}	-4.59%	2.24%	-15.44%	1.31%	-	-

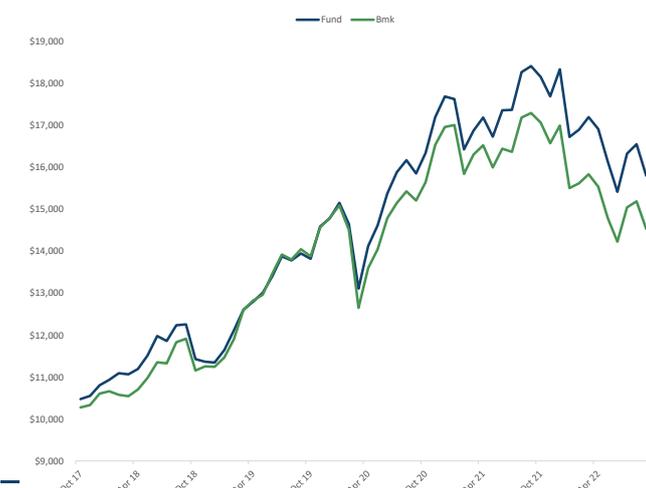
1. Returns are before tax and before the deduction of fees.

2. Benchmark: S&P/NZX 50 Index Gross (with Imputation Credits). No tax or fees.

3. Returns are before tax and after the deduction of fees and expenses and including tax credits (if any).

4. KiwiSaver fund transitioned from core strategy to SRI strategy in February 2022.

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.

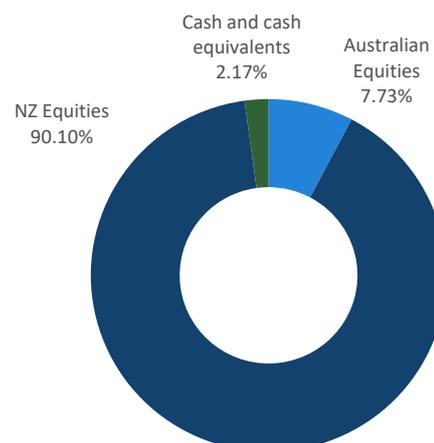
Overview

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 quarter) *				Sector Allocation	Fund	Benchmark
What Helped:		What Hurt:		Health care	22.77%	22.41%
Infratil Ltd	OW	Ramsay Healthcare	OW	Utilities	22.40%	22.09%
SkyCity Entertainment	RS	Restaurant Brands	OW	Industrials	19.15%	22.03%
Michael Hill Intl	OW	PushPay	OW	Communication services	15.17%	11.84%
OW overweight; UW underweight; NH no holding; RS restricted stock.				Real estate	5.34%	9.10%
Top 10 Holdings				Consumer staples	5.07%	5.49%
Spark New Zealand Ltd	10.42%	Contact Energy	6.57%	Information technology	3.31%	1.67%
Infratil Limited	8.57%	Mainfreight Limited	6.35%	Cash and cash equivalents	2.17%	0.00%
Fisher & Paykel Healthcare	8.11%	Meridian Energy Ltd	4.56%	Consumer discretionary	1.61%	3.06%
Auckland International Airport	7.29%	Fletcher Building Ltd	4.52%	Materials	1.22%	0.00%
EBOS Group Limited	6.67%	The A2 Milk Co. Ltd	4.03%	Financials	1.20%	2.32%
				Energy	0.60%	0.00%
				Number of holdings	39	50

Market Commentary

Global equity markets sold off over the quarter driven by earnings season, continued inflation concerns and bond yield movements. While company earnings results were generally as expected, labour availability, increasing wages and rising interest rates are the key issues that companies are having to manage. Central banks continue their battle against inflation with aggressive cash rate hikes. Both the Reserve Bank of Australia and the US Federal Reserve increased cash rates by 150 basis points while the Reserve Bank of New Zealand and the Bank of England increased their official cash rates by 100 basis points. Bond yields continue to be volatile with 10-year government bond yields for New Zealand, Australia, the United Kingdom and the United States up 44bps, 23bps, 186bps and 82bps respectively.

Fund Commentary

The fund ended the quarter up 2.5%, which was 0.3% ahead of the index return. The largest positive contributors to relative return were **Infratil (IFT)**, **Michael Hill (MHJ)** and a nil holding in restricted Sky City (SKC). IFT increased by 12.6%. The company benefited from their 50% holding in Vodafone, with the announced partial sale of its cell tower assets at an attractive valuation. In addition, announced a new investor buying into its Longroad Energy business at a very attractive price and this flows through to an increased value for IFT's Longroad Energy holding. MHJ increased by 19.0%. The company delivered another strong result in August that revealed ongoing operating momentum as evidenced by 12 consecutive quarters of same store sales. Over the last financial year, the company grew comparable profit by 11% and achieved gross profit margin expansion of 2%. The largest negative contributors to relative return were from overweight positions **Ramsay (RHC)**, **Restaurant Brands (RBD)** and **Pushpay (PPH)**. RBD decreased by 29%. The company continued to generate sales revenue growth however a combination of factors caused significant cost pressure to build and subsequently dent near-term earnings prospects. In addition, the well-regarded CEO and CFO have announced their respective retirements from the business after a long and successful partnership. RHC decreased by 19%. This followed the conclusion of takeover negotiations with the KKR lead private equity consortium. After complications with RHC's French asset, the consortium could not provide an appropriately priced alternative takeover offer having walked back their original \$88 per share. **NXT** decreased by 17.1%. The company delivered their earnings result which was broadly in line with expectations, growing profit by 26%. However, some concern emerged from greater supply chain challenges, with lead times extending considerably. This may prove to be a drag on pipeline conversion. Furthermore, long-term growth stocks have struggled against rapidly rising interest rates. Key portfolio changes during the quarter included adding **Channel Infrastructure (CHI)** to the portfolio. An increase in **Serko (SKO)**, **Allkem (AKE)** and **Pacific Edge (PEB)**. In addition to a decrease in Westpac (WBC), **Restaurant Brands (RBD)** and **NEXTDC (NXT)**. (**Bold** denotes stocks held in the portfolio).

Key Fund Facts

Distributions

Wholesale fund: Calendar quarter.
Retail fund: March and September
KiwiSaver fund: Does not distribute

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.

Exclusions: Securities that conduct activities listed on the Schedule to Cluster Munitions Prohibition Act 2009.

Restrictions: Tobacco stocks, 'controversial weapons', fossil fuels, adult entertainment, alcohol, gambling. For more information, please refer to the Statement of Investment Policy and Objectives (SIPO) which can be found on our website <https://www.nikkoam.co.nz/invest/retail>.

Compliance

The fund complied with its investment mandate and trust deed during the quarter.

Contact Us

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