

Factsheet 30 November 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 had a strong month on the back of lower-than-expected inflation in the United States and the prospect of smaller-than-expected increases in the Federal Reserve Funds Rate.
- The United States S&P 500 index rose 5.4%, the Japanese Nikkei 225 index added 1.4%, the UK FTSE 100 index gained 6.7%, the Australian ASX 200 index increased 6.6% and the MSCI World index ended the month up 6.3%
- The S&P/NZX 50 index ended the month up 1.9%.

## Fund Highlights

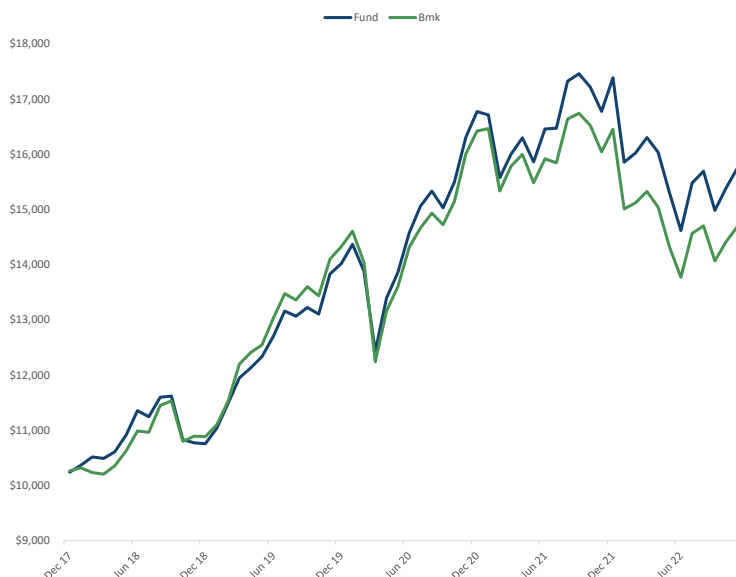
- The fund ended the month up 2.4%, and ahead of the index return.
- Several portfolio companies reported earnings for the period ended September.
- Underweight position Ryman Healthcare, and nil holdings in Genesis Energy and Sky City added value.
- Overweight positions Mainfreight and Michael Hill, and an underweight in Fisher and Paykel detracted from value.

## Performance

	One month	Three months	One year	Three years (p.a)	Five years (p.a)	Ten years (p.a)
Wholesale <sup>1</sup>	2.37%	0.39%	-6.09%	4.44%	9.52%	14.25%
Benchmark <sup>2</sup>	1.92%	-0.08%	-8.42%	1.38%	8.00%	12.20%
Retail <sup>3</sup>	2.33%	-0.08%				
KiwiSaver <sup>3,4</sup>	2.31%	0.19%	-7.27%	1.43%		

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<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 12 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.

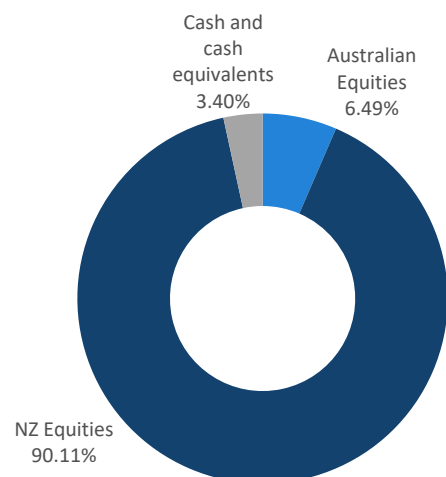
## Overview

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	Fund	Benchmark
<b>What Helped:</b>		<b>What Hurt:</b>		Health care	22.84	23.32
Ryman Healthcare Ltd	OW	Fisher & Paykel Health	UW	Utilities	22.30	21.23
Genesis Energy Ltd	NH	Mainfreight	OW	Industrials	19.57	22.61
SkyCity Entertainment Group	RS	Michael Hill	OW	Communication services	14.61	11.79
OW overweight; UW underweight; NH no holding; RS restricted stock.				Consumer Staples	5.46	5.53
<b>Top 10 Holdings</b>				Real estate	4.30	8.56
Fisher & Paykel Healthcare	10.46	Mainfreight Limited	6.37	Information technology	3.42	1.63
Spark New Zealand Ltd	10.06	EBOS Group Limited	6.31	Cash and cash equivalents	3.40	0.00
Infratil Limited	8.60	The A2 Milk Company	4.54	Materials	1.41	0.00
Auckland International Airport	7.85	Fletcher Building Ltd	4.30	Consumer discretionary	1.34	2.95
Contact Energy Limited	6.68	Meridian Energy Ltd	4.17	Energy	1.05	0.00
				Financials	0.30	2.38
				<b>Number of holdings</b>	<b>38</b>	<b>50</b>

## Market Commentary

Global equity markets are jumping at any sign that interest rates won't peak as high as initially expected. United State inflation came in at 7.7% which was below what the market was expecting. This led to the NASDAQ leaping more than 7% and the S&P 500 more than 5% on the day. Despite what markets are thinking, inflation remains high and central banks are focused on getting on top of it and as a result cash rates continue to be increased. The Reserve Bank of New Zealand is one of the most aggressive and raised rates another 75bps in the month taking the official cash rate to 4.25% and is signalling that it will peak at 5.5%.

## Fund Commentary

The fund ended the month up 2.4%, 0.5% ahead of the index return. The largest positive contributors to relative return were underweight position **Ryman Healthcare** (RYM), and nil holdings in Genesis Energy (GNE) and Sky City (SKC). RYM decreased by 20.6%. While the operational performance was relatively solid, the negatives dominated the narrative and market reaction. These include an elevated debt position that now exceeds \$3.0bn, alongside weak cash generation and increasing speculation that an equity raising could be on the cards. GNE decreased by 10.4% - little by way of new stock specific information. Interest rate sensitive stocks such as GNE have been under pressure, partly due to the RBNZ's November OCR hike, increasing by 75 basis points to 4.25%. Amplified by a surprise upward revision to forecast peak OCR is now estimated to reach 5.50% next year. Restricted stock SKC decreased by 4.8%. The largest negative contributors to relative return were from overweight positions **Mainfreight** (MFT) and **Michael Hill** (MHJ), and an underweight in Fisher and Paykel (FPH). MFT decreased by 6.0%. Despite an excellent half year result which revealed another step up in profits as strong demand and pricing for their services continues. However, market focus has switched to implications around air and ocean freight rates moderating in the future. MHJ decreased by 2.9% - the pullback follows an exceptional period of performance. With economic headwinds seemingly on the horizon, the market expects discretionary spend to come under pressure. To date, their numbers have remained resilient and looking forward, management refer to initiatives and levers that could limit the broad macro effects on the company. FPH increased by 20.5%. The company result delivered a beat to market expectations, and this drove a strong reaction after a long period of underperformance.

Key portfolio changes during the month included increases in Channel Infrastructure (CHI) and Allkem (AKE), and decreases in Stride Property Group (SPG), ANZ Bank (ANZ), and Charter Hall Group (CHC). (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 month.

## Contact Us

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