

Factsheet 31 March 2023

# 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 quarter, aided by lower bond yields and shrugging off the concerns around the banking sector following the failure of Silicon Valley Bank.
- The United States S&P 500 index rose 7.0%, the Japanese Nikkei 225 index added 7.5%, the UK FTSE 100 index gained 2.4% the Australian ASX 200 index increased 2.5% and the MSCI World index ended the quarter up 7.0%.
- The S&P/NZX 50 index ended the quarter up 3.9%.

## Fund Highlights

- The fund ended the quarter up 4.02%, in line with the benchmark return.
- A number of portfolio companies reported earnings for the December end period.
- Restaurant Brands was removed from the S&P/NZX 50 index while Channel Infrastructure was added.
- Ryman Healthcare raised \$902mn to reduce debt.
- The takeover offer for Pushpay was voted down but a new offer has been tabled which appears as though it will be successful.
- Overweight positions Sky Television, Channel Infrastructure and a nil holding in Heartland Group added value.
- Overweight positions Ryman Healthcare, Ingenia Communities and the A2 Milk Company 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>	0.98%	4.02%	0.19%	9.54%	9.27%	13.60%
Benchmark <sup>2</sup>	0.21%	3.89%	-1.02%	7.41%	8.26%	11.52%
Retail <sup>3</sup>	0.35%	3.20%	-1.27%			
KiwiSaver <sup>3,4</sup>	0.90%	3.76%	-0.75%	7.95%	6.49%	

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.

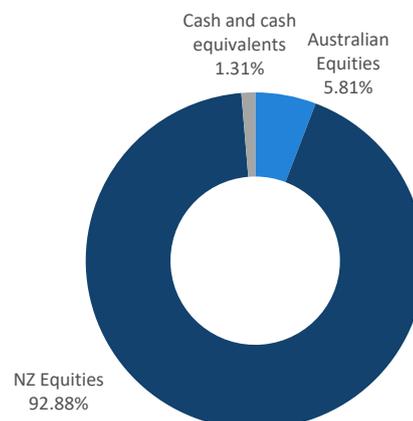
## Overview

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 quarter)				Sector Allocation	Fund	Benchmark
<b>What Helped:</b>		<b>What Hurt:</b>		Health care	26.71	24.77
Channel Infrastructure NZ	OW	Ryman Healthcare	OW	Utilities	23.61	21.89
Heartland Group Holdings	NH	Ingenia Communities Group	OW	Industrials	17.11	22.11
Sky Network Television Ltd	OW	A2 Milk	OW	Communication services	14.95	11.40
OW overweight; UW underweight; NH no holding; RS restricted stock.				Consumer staples	4.82	4.88
Top 10 Holdings (% of fund)				Information technology	4.44	1.53
Fisher & Paykel Healthcare	12.56	EBOS Group Limited	5.93	Real estate	2.69	8.18
Spark New Zealand Ltd	9.97	Mainfreight Limited	5.27	Consumer discretionary	1.51	2.31
Infratil Limited	8.70	The A2 Milk Company Limited	4.51	Cash and cash equivalents	1.31	0.00
Auckland Internat. Airport	8.01	Meridian Energy Ltd	4.28	Energy	1.13	0.30
Contact Energy Limited	7.37	Ryman Healthcare Ltd	3.66	Materials	1.09	0.39
				Financials	0.62	2.23
				<b>Number of holdings</b>	<b>35</b>	<b>50</b>

## Market Commentary

Global equity markets had a strong quarter, aided by lower bond yields, the reopening of China and shrugging off the concerns around the banking sector following the failure of Silicon Valley Bank. Key central banks lifted cash rates during the quarter as they continue their battle with inflation. Investors are looking for signals that rate increases have taken rates near to or are at their peak. Central banks are talking a tough game and will do whatever is necessary to get inflation back to target ranges. While the failure of Silicon Valley Bank sent ripples through the financial sector, the strong response from US regulators limited the impact. In results we have seen good revenue growth but offset by increased operating expenses and interest costs.

## Fund Commentary

The fund ended the quarter up 4.02%, in line with the benchmark return. The largest positive contributors to relative return were overweight positions **Sky Network Television (SKT)** and **Channel Infrastructure (CHI)** and a nil holding in Heartland Group (HGH). SKT increased by 13.2%. The company released a solid first half FY2023 result, which included the intention to commence a share buyback. They have passed through some cost pressure via a lift in satellite subscription rates for Sky Sports, in addition to outsourcing a portion of its call centre work to the Philippines. CHI increased by 9.3%. The stock was included in the flagship S&P/NZX50 Index. The company concluded its financial year that included a mix of its discontinued refining activities and commencement of terminal services. Long-term volume assumptions have been lifted due to jet fuel assumptions. HGH decreased by 9.5%. The company released their first half FY2023 result and maintained guidance for the full year, where strong growth in the reverse mortgage business and the motor business should drive 2H23 receivables growth. Despite limited relevance, the whole sector suffered from contagion relating to respective issues at Silicon Valley Bank in the U.S. and Credit Suisse in Europe. The largest negative contributors to relative return were overweight positions **Ryman Healthcare (RYM)**, **Ingenia Communities (INA)**, and the **A2 Milk Company**. RYM increased by 4.3%. The company completed a large capital raise to strengthen its balance sheet. In addition, revealed a corporate strategy shift designed to improve its free cash flow generation over time. Rising debt levels have been an area of concern for a while hence action taken should be supportive over the medium-term. INA decreased by 14.6%. The company downgraded earnings guidance due to lower home deliveries over the period. ATM decreased by 15.5%. The company delivered a strong first half FY2023 result, with profit growth of 22.1%, beating market expectations. However, ongoing weakness in the key China infant formula market curbed positivity. Subsequently, a conclusion to their buyback program alongside a weak Synlait Milk result contributed to a pullback.

Key portfolio changes during the month included exiting Centuria Industrial REIT (CIP), Dexus Industria (DXI), and Vulcan Steel (VSL). Increasing positions in **RYM**, **Restaurant Brands (RBD)**, and **Charter Hall Group (CHC)**. Reducing positions in **Scales Corp (SCL)**, **INA** and **Fletcher Building (FBU)**. (**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

### Estimated annual fund charges

Wholesale: negotiated outside of fund  
Retail: 0.95%, refer PDS for more details  
KiwiSaver: 0.95%, refer PDS for more details

**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:** \$66.8m

Currently the fund's foreign currency exposure is unhedged.

**Exclusions:** Controversial weapons (including but not limited to cluster munitions and chemical, biological and nuclear weapons).

**Restrictions:** Tobacco stocks, fossil fuels, adult entertainment, alcohol and 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.

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