

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

- While global equity markets were mostly positive over the quarter, there was quite a large range in returns driven by stock specific events, economic data and interest rate movements.
- The United States S&P 500 index rose 8.3%, the Japanese Nikkei 225 index jumped 18.4%, the UK FTSE 100 index fell 1.3% the Australian ASX 200 index gained 1.0% and the MSCI World index ended the quarter up 6.6%.
- The S&P/NZX 50 index ended the quarter up 0.4%.

Fund Highlights

- The fund ended the quarter up 1.8% and well ahead of the index return.
- A number of the fund's holdings reported results for the period ended 31 March.
- The Pushpay takeover was concluded with its delisting from the NZX and payment received by the fund for its holding. NextDC completed a \$618m capital raise to fund new data centres while Infratil raised in excess of \$900m to fund the purchase of the half of One NZ that it didn't already own.
- Overweight positions Infratil, Allkem, and Ryman Healthcare added value.
- Overweight positions in Ramsay Healthcare and A2 Milk and an underweight position (nil holding) in Goodman Property detracted from value.

Performance

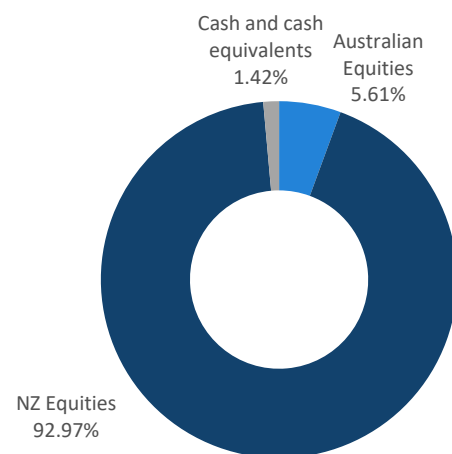
| | One month | Three months | One year | Three years (p.a) | Five years (p.a) | Ten years (p.a) |
|--------------------------|-----------|--------------|----------|-------------------|------------------|-----------------|
| Wholesale ¹ | 0.70% | 1.82% | 13.78% | 4.50% | 7.94% | 13.85% |
| Benchmark ² | 0.93% | 0.37% | 10.57% | 2.08% | 6.74% | 11.51% |
| Retail ³ | 0.62% | 1.57% | 12.68% | | | |
| KiwiSaver ^{3,4} | 0.63% | 1.59% | 12.72% | 3.12% | 5.34% | |

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}



Asset Allocation



Portfolio Manager

Michael De Cesare,
Portfolio Manager



Responsible for the SRI Equity Fund. Covers the Communication Services, Transport 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.

NIKKO AM SRI EQUITY STRATEGY

| Attribution to Performance (for the quarter) | | | |
|--|-------|-----------------------------|------|
| What Helped: | | What Hurt: | |
| Infratil | OW | Ramsay Health Care | OW |
| Allkem | OW | A2 Milk Co | OW |
| Ryman Healthcare | OW | Goodman Property | NH |
| OW overweight; UW underweight; NH no holding; RS restricted stock. | | | |
| Top 10 Holdings (% of fund) | | | |
| Fisher & Paykel Healthcare | 11.44 | Mainfreight Limited | 5.27 |
| Infratil Limited | 10.56 | EBOS Group Limited | 5.16 |
| Spark New Zealand Ltd | 10.21 | Meridian Energy Ltd NPV | 5.13 |
| Auckland Intl. Airport Ltd | 8.52 | The A2 Milk Company Limited | 4.22 |
| Contact Energy Limited | 7.80 | Ryman Healthcare Ltd | 4.00 |

| Sector Allocation | Fund | Benchmark |
|---------------------------|-----------|-----------|
| Utilities | 26.59 | 23.92 |
| Health Care | 25.59 | 23.32 |
| Industrials | 17.79 | 22.60 |
| Communication Services | 15.44 | 11.40 |
| Consumer Staples | 4.23 | 4.24 |
| Real Estate | 2.94 | 8.37 |
| Information Technology | 1.85 | 0.65 |
| Consumer Discretionary | 1.45 | 2.43 |
| Cash and cash equivalents | 1.42 | 0.00 |
| Materials | 1.35 | 0.43 |
| Energy | 1.22 | 0.30 |
| Financials | 0.13 | 2.34 |
| Number of holdings | 32 | 50 |

Market Commentary

Global equity markets were mostly positive over the quarter with earnings results affecting specific stocks while interest rate moves and economic data drove the broader market. The New Zealand earnings results were generally in line with expectations with a couple of exceptions. Fisher & Paykel Healthcare disappointed the market with its outlook and given its large weight in the index it was a material drag to the S&P / NZX 50 index's return. EBOS was also a large negative contributor to the index return over the quarter after unexpectedly announcing the loss of a major contract. On monetary policy, most key central banks raised rates over the quarter with the US Federal Reserve, the European Central bank, the Bank of England, the Bank of Canada, the Reserve Bank of Australia and the Reserve Bank of New Zealand all raising their official cash rates. Several of the rate increases were unexpected by the market - either being more than expected or raising when not expected to at all. The RBNZ stuck to their previously guided peak cash rate where the market had started pricing a higher peak rate.

Fund Commentary

The fund ended the quarter up 1.8% and well ahead of the index return. The largest positive contributors to relative return were overweight positions in **Infratil** (IFT), **Allkem** (AKE), and **Ryman** Healthcare (RYM). IFT increased by 12.2%. The company delivered a strong set of full-year 2023 results. Four years after acquiring a 50% stake in One New Zealand (formerly Vodafone NZ), IFT undertook an equity raise to attain full control. Acquiring the remaining ~50% for NZ\$1.8bn from their partner Brookfield. AKE increased by 34.9%. The company announced a merger agreement with Livent - a lithium producer and processor listed on the NYSE which should deliver material synergies and diversification benefits. Over time, the combined group will become one of the world's largest lithium suppliers. RYM increased 25.3%. The company delivered a result that beat market expectations and delivered signs that its reset strategy is going to plan. In addition, the sector has benefitted from modestly improving housing market sentiment.

The largest negative contributors to relative return were from overweight positions in **Ramsay** Healthcare (RHC) and **A2 Milk** (ATM) and a nil holding in Goodman Property (GMT). RHC decreased by 15.4%. The company released a third quarter trading update which proved to be weaker than market expectations. ATM decreased by 14.3%. The company's infant formula supplier Synlait Milk announced an earnings downgrade. ATM subsequently provided its own update indicating revenue growth of circa 10% in FY23, at the low end of prior guidance, while still expecting profit margins to be similar to FY22. GMT increased by 4.5%. The company released their result which demonstrated ongoing demand for high quality industrial property.

Key portfolio changes during the quarter included exiting Eroad (ERD), Pacific Edge (PEB), and Pushpay (PPH). Increases in **Investore** (IPL), **NextDC** (NXT), **Serko** (SKO), **Meridian** (MEL) and **Summerset** (SUM). Decreases in **Scales** (SCL), **ANZ** Bank (ANZ), **Stride** Property (SPG), **Ingenia** (INA), and **Ryman** Healthcare (RYM). (**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: 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) on our website <https://www.nikkoam.co.nz/invest/retail>.

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

Buy / Sell spread: 0.29% / 0.29%
Strategy Launch Date: January 2008
Strategy size: \$67.3m

Compliance

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

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