

Factsheet 28 February 2021

# NIKKO AM SRI EQUITY STRATEGY

Applies to: Nikko AM Wholesale SRI Equity Fund

## Market Overview

- Equity markets globally were generally buoyed by positive vaccine rollout along with the hope of what President Biden means for the world.
- The United States S&P 500 index rose 2.6%, the Japanese Nikkei 225 index gained 4.7%, the UK FTSE 100 index gained 1.2%, the Australian ASX 200 index added 1.5% and the MSCI World index ended the month up 1.6%.
- The S&P/NZX 50 index was a stand-out exception falling 6.9% for the month.

## Fund Highlights

- The fund produced a negative 6.8% absolute return for the month, marginally ahead of the index.
- Overweight positions in Summerset, Infratil and ANZ Bank added value.
- An overweight position in Contact Energy and nil holdings in Port of Tauranga and restricted stock SkyCity detracted value.

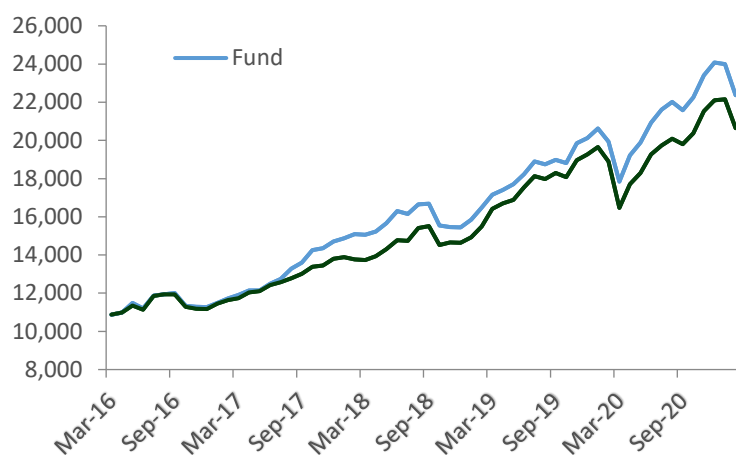
## Performance

	One month	Three months	One year	Three years (p.a)	Five years (p.a)	Ten years (p.a)
Wholesale <sup>1</sup>	-6.79%	-4.47%	12.17%	14.00%	17.46%	16.04%
Benchmark <sup>2</sup>	-6.85%	-4.18%	9.21%	14.43%	15.59%	14.94%

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<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 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.

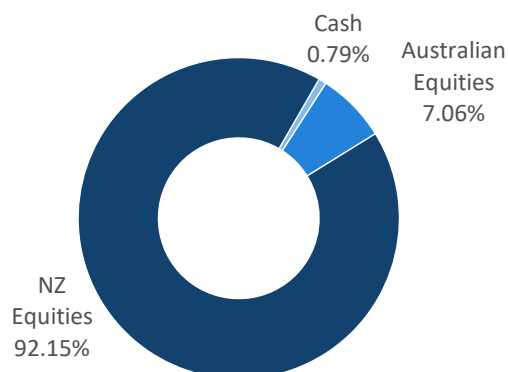
## Overview

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



## NIKKO AM SRI EQUITY STRATEGY

Attribution to Performance (month)*			
What Helped:		What Hurt:	
ANZ Banking Group	OW	Port of Tauranga	NH
Summerset Group Holdings	OW	Contact Energy	OW
Infratil Limited	OW	Sky City	NH
OW: overweight; UW: underweight; NH: no holding			
Top 10 Holdings			
Fisher & Paykel Healthcare	14.33%	The A2 Milk Company	6.01%
Spark New Zealand Limited	8.99%	Meridian Energy Lt Npv	5.19%
Auckland International Airport	7.11%	Fletcher Building Ltd	4.79%
Infratil Limited	6.97%	Summerset Group Holdings	4.75%
Mainfreight Limited	6.79%	Contact Energy Limited	4.73%
Number of holdings fund			30

Sector Allocation	Fund	Benchmark
Health Care	25.87%	25.47%
Utilities	19.70%	19.63%
Industrials	13.89%	16.64%
Communication Services	12.41%	9.73%
Real Estate	6.37%	9.14%
Consumer Staples	6.26%	7.11%
Materials	4.79%	4.21%
Information Technology	3.64%	1.86%
Consumer Discretionary	2.60%	2.79%
Financials	2.44%	2.30%
Energy	1.24%	1.12%
Cash	0.79%	0.00%

\*excludes restricted stocks

### Market Commentary

Market focus centered on the ongoing COVID-19 vaccination effort, scope for economic recovery, progress on the US stimulus package and an unexpectedly strong increase in bond yields. In addition to the important NZ February corporate reporting season. COVID-19 vaccination achievements offer the enticing prospect of an end to government-imposed lockdowns, restrictions, and a reopening of the global economy. Consequently, this has helped lift anticipation for a strong recovery in economic performance and associated corporate earnings. Furthermore, positive market sentiment has been amplified by ongoing central bank support and the advancement of the US stimulus package. The US stimulus has now been passed by The House of Representatives and heads for the Senate. However, because of the improving outlook, inflation expectations have been growing. This precipitated a sharp rise in bond yields and a corresponding equity market sell-off into month end. The benefits of vaccines versus the challenge of higher rates looks set to be the major theme this year. The NZ reporting season was strong, with companies reporting healthy earnings growth on the prior corresponding period. Compared to initial market expectations, the results came in better, with a convincing 'beat to miss' ratio. Nevertheless, the surge in bond yields served to undermine this positive outcome.

### Fund Commentary

The fund produced a negative 6.8% absolute return for the month marginally ahead of the index. The largest positive relative returns were from overweight positions in **Summerset** (SUM), **Infratil** (IFT) and **ANZ Bank** (ANZ). SUM up 5.6% reported a very strong full year profit, 32% growth with good ongoing operational momentum including a lift in the build rate for FY21. IFT up 2.2% continued to be well supported following their investor day and the takeover interest from AusSuper. ANZ up 10.6% provided a quarterly update that highlighted an easing regulatory environment, scope for credit growth and capital management.

The largest negative relative returns were from an overweight position in **Contact Energy** (CEN) and nil holdings in **Port of Tauranga** (POT) and restricted stock **SkyCity** (SKC). CEN down 16% delivered a positive earnings result alongside the rest of the sector. Despite this, the stock was sent lower by an announced change to the index methodology for the clean energy ETF, effectively highlighting a down-weighting. Furthermore, the company underwent an equity raise at \$7.00. POT up 1% delivered at better than expected result, growing earnings by 2% despite a number of headwinds.

Key portfolio changes during the month included an increase in **ANZ Bank** (ANZ); **Fletcher Building** (FBU); **Ryman Healthcare** (RYM); **EROAD** (ERD) and **Spark** (SPK). In addition to decreases in **Scales Corp** (SCL); **Contact Energy** (CEN); **Meridian Energy** (MEL); **Mercury NZ** (MCY) and **Z Energy** (ZEL).

(**Bold** denotes stocks held in the portfolio)

### Key Fund Facts

<b>Distributions</b>	<b>Estimated annual fund charges</b>		
Calendar quarter.	Wholesale: negotiated outside of fund		
<b>Hedging</b>	<b>Buy / Sell spread:</b>	<b>Strategy Launch Date</b>	<b>Strategy size</b>
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	\$69.4m

**Compliance** The fund complied with its investment mandate and trust deed during the month.

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