

Factsheet 31 August 2021

# NIKKO AM SRI EQUITY STRATEGY

Applies to: Nikko AM Wholesale SRI Equity Fund

## Market Overview

- Global equity markets were generally strong over the month.
- In New Zealand, the economic backdrop was conducive of inflation moving higher and with unemployment low the Reserve Bank was set to raise the Official Cash Rate. However, the COVID-19 Delta variant outbreak in New Zealand put that on hold.
- The MSCI World index ended the month up 2.4%. The United States S&P 500 index rose 2.9%, the Japanese Nikkei 225 index gained 3.0%, the UK FTSE 100 index increased 1.2%.
- Locally, the S&P/NZX 50 index had a strong month rising 5.0%, while the Australian ASX 200 index added 2.5%.

## Fund Highlights

- The fund produced a positive 5.18% absolute return for the month.
- Overweight positions in Summerset, EBOS and Mainfreight added value.
- Overweight positions in EROAD, Michael Hill and an underweight in Ryman detracted value.

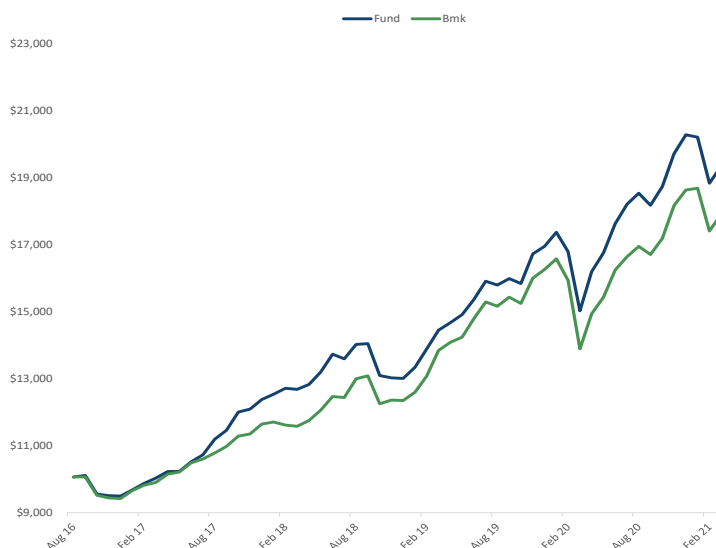
## Performance

	One month	Three months	One year	Three years (p.a)	Five years (p.a)	Ten years (p.a)
Wholesale <sup>1</sup>	5.18%	9.22%	12.99%	14.31%	15.79%	17.56%
Benchmark <sup>2</sup>	5.00%	7.43%	11.42%	13.26%	13.40%	16.05%

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.

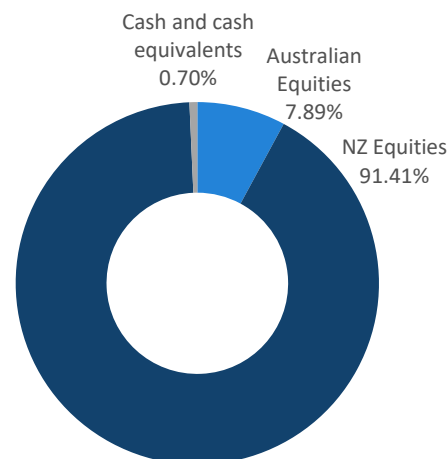
## Overview

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



Attribution to Performance (month)*				Sector Allocation (as at month end)		Fund	Benchmark
<b>What Helped:</b>		<b>What Hurt:</b>		Health care		27.11%	27.28%
Summerset Group Ltd	OW	Ryman Healthcare	UW	Utilities		19.88%	19.03%
EBOS Ltd	OW	EROAD Ltd	OW	Industrials		20.27%	21.87%
Mainfreight Ltd	OW	Michael Hill Intl	OW	Communication services		10.86%	9.26%
OW: overweight; UW: underweight; NH: no holding				Real estate		6.27%	9.45%
<b>Top 10 Holdings (as at month end)</b>				Information technology		5.17%	2.05%
Fisher & Paykel Healthcare	13.99%	Infratil Ltd	6.17%	Financials		2.85%	2.32%
Spark New Zealand Ltd	7.80%	Auckland Int Airport	5.77%	Consumer discretionary		2.56%	2.86%
Mainfreight Ltd	6.71%	Meridian Energy Ltd	5.44%	Consumer staples		2.46%	4.53%
Contact Energy Ltd	6.50%	EBOS Group Ltd	4.45%	Energy		1.87%	1.35%
Fletcher Building Ltd	6.40%	Summerset Group	4.25%	Cash and cash equivalents		0.70%	0.00%
*excludes restricted stocks				<b>Number of holdings</b>		<b>35</b>	<b>50</b>

## Market Commentary

Global equity markets were strong over the month. Although China was somewhat of an exception- a flat performance showed following a 7.9% fall in July as tighter regulation of industries and companies weighed on the Chinese market. The New Zealand market has underperformed global peers year-to-date, but performed well over the month, helping recoup some of the gap. Despite the spread of the Delta variant of COVID-19 around the world, the vaccine rollout has enabled more freedom in many countries, an opening of economies and a boost to growth. As such, enthusiasm about global economic activity has supported some economically sensitive sectors around the world. Locally, New Zealand was forced back into restrictive lockdowns due to an outbreak of the COVID-19 Delta variant. Nevertheless, despite the disruption caused, local investors have been reassured by a very impressive reporting season and past experience that New Zealand will ultimately work through and exit this difficult situation. Overall, the vast bulk of companies delivered strong results, while coping admirably with the challenges that are continuing to impact some sectors. Most stocks in the NZX 50 gained over the month, with 38 positive and 12 negative, with a 30.5% spread across return spectrum.

## Fund Commentary

The fund produced a positive 5.18% absolute return for the month. The largest positive relative returns were from overweight positions in Summerset (SUM), EBOS (EBO) and Mainfreight (MFT). SUM up 17.1%, as they continue their excellent strategic execution. The company reported a very strong half year result, including a better than expected build rate for the year and alongside a supportive underlying housing market. EBO up 15.9%, having announced record financial results and their intention to invest \$80m on a new pet food manufacturing facility in New South Wales. The pet care market has been incredibly strong since the start of the pandemic in early 2020, and forecasts are for this to continue. MFT up 14.6%, continued its rally post a strong beat earlier in the year. The market has upwardly revised next year's earnings expectations, and industry insights suggest the positive tailwinds are continuing. The largest negative relative returns were from overweight positions in EROAD (ERD) and Michael Hill (MHJ); and an underweight in Ryman (RYM). ERD down 4.2%, as the company consolidated somewhat on no new news, following a very strong period of performance which encompassed their mid-July announcement that they intend to acquire Coretex. MHJ down 3.0%, delivered a very strong FY21 result. This included a robust trading update for the current period. The company acknowledged some uncertainty given present COVID-19 disruptions but have also demonstrated an ability to perform admirably through such conditions. RYM up 17.5%, partly a rebound after being oversold by the market over the preceding periods. A positive Annual General Meeting at the end of July, served to provide some comfort regarding the underlying business as they progress through a leadership transition.

Key portfolio changes during the month included exiting a small position in New Zealand Refining (NZR). Positions in Precinct Property (PCT), Z Energy (ZEL), Sky TV (SKT) were increased. Positions in Scales Corp (SCL), Freightways (FRE) and Sydney Airport were reduced.

## 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	\$70.8m

## Compliance

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

## Contact Us

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