

Factsheet 31 December 2021

NIKKO AM SRI EQUITY STRATEGY

Applies to: Nikko AM Wholesale SRI Equity Fund

Market Overview

- Global equity markets mostly posted strong returns for the quarter while Inflation continues to be relatively high in a number of economies. There is a focus on what response Central Banks will take given the high inflation numbers.
- The United States S&P 500 index rose 10.7%, the Japanese Nikkei 225 index lost 2.2%, the UK FTSE 100 index increased 4.2%, the Australian ASX 200 index added 2.1% and the MSCI World index ended the quarter up 7.0%.
- The S&P/NZX 50 index ended the quarter down 1.7%.

Fund Highlights

- The fund posted a solid return for the month but ended the quarter down 0.4%, 1.3% ahead of the index.
- News flow was high during the quarter with a number of the fund's holdings reporting earnings for the period ended September along with a number of capital raisings.
- During the quarter the fund participated in the initial public offering of Vulcan Steel, the \$330m capital raising by Arvida, the \$779m capital raising by EBOS, Ingenia Communities raising of \$475m, the \$120m capital raising of Stride Property and Serko's \$85m raising.
- Overweight positions in Michael Hill, EBOS and Sky Network Television added value. Overweight positions in Summerset and Pushpay and an underweight position 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	3.64%	-0.41%	3.65%	17.36%	17.23%	17.86%
Benchmark ²	2.55%	-1.73%	0.20%	14.77%	14.66%	16.07%

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^{1, 2}



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.

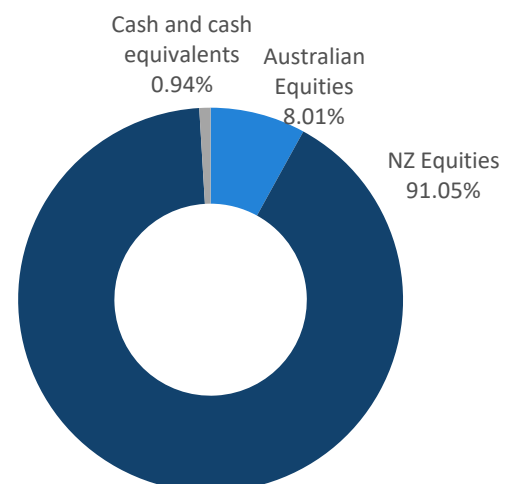
Overview

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 (for the quarter) *				Sector Allocation	Fund	Benchmark
What Helped:	What Hurt:			Health care	29.65%	27.53%
Michael Hill	OW	PushPay Holdings	OW	Industrials	19.16%	22.30%
EBOS Ltd	OW	Summerset Ltd	OW	Utilities	17.44%	18.47%
Sky Network Ltd	OW	Goodman Property	NH	Communication services	11.17%	9.06%
OW: overweight; UW: underweight; NH: no holding. *excludes restricted stocks				Real estate	7.05%	9.32%
Top 10 Holdings				Information technology	3.96%	2.09%
Fisher & Paykel Healthcare	13.96%	Fletcher Building	5.51%	Consumer staples	3.56%	4.64%
Mainfreight Limited	7.30%	Auck., Int. Airport	5.31%	Consumer discretionary	2.82%	2.84%
Spark New Zealand Ltd	7.14%	Summerset Ltd	4.15%	Financials	1.92%	2.37%
EBOS Group Limited	6.25%	The A2 Milk Ltd	3.43%	Energy	1.67%	1.38%
Contact Energy Limited	5.85%	Meridian Energy Ltd	3.30%	Cash and cash equivalents	0.94%	0.00%
				Materials	0.66%	0.00%
				Number of holdings	39	50

Market Commentary

Despite the rapid spread of the Omicron COVID-19 variant, global equity markets mostly posted strong returns for the quarter. Inflation continues to be relatively high in a number of economies and as a result there is a focus on the response from Central Banks. The Reserve Bank of New Zealand increased the official cash rate (OCR) twice over the quarter taking the OCR from 25 basis point to 75 basis points. Company results announced during the quarter highlighted cost pressures being faced, in particular those related to wages or those impacted by constrained supply chains.

Fund Commentary

The fund ended the quarter down 0.4% and 1.3% ahead of the index return. The largest positive contributors to the relative return were overweight positions in **Michael Hill** (MHJ), **EBOS** (EBO) and **Sky Network Television** (SKT). MHJ rose 56.8% (in AUD) on the back of a trading update where they stated they expect to deliver a half-year result well above the prior comparable period. EBO raised \$779m to fund the acquisition of a medical device distribution business and also announced a strong trading update. EBO ended the quarter up 16.7%. SKT jumped 37.8% after upgrading earnings guidance and announcing the sale of its property in Mt Wellington.

The largest negative contributors to relative return were overweight positions in **Summerset** (SUM) and **Pushpay** (PPH) and a nil holding in Goodman Property (GMT). A number of retirement businesses reported earnings during the quarter which highlighted increasing costs, in particular for staff. This, along with some negative sentiment around the housing market outlook saw SUM fall 9.9%. PPH dropped 28.7% after a disappointing result and downgrading its earnings guidance while GMT rose 7.3% as industrial property continues to see good revaluation gains.

Key portfolio changes during the quarter included adding **Vulcan Steel** (VSL) and **Arvida** (ARV) through their capital raisings to the portfolio. Positions in **Ingenia Communities** (INA), **Serko** (SKO) and EBO were added to through their respective capital raisings. Positions in PPH, **Restaurant Brands** (RBD), **Pacific Edge** (PEB), **Spark** (SPK), **Waypoint REIT** (WPR) **Centuria Industrial REIT** (CIP), **Dexus Industria REIT** (DXI) and **A2 Milk** (ATM) were increased. Positions in **ANZ Bank** (ANZ), **Z Energy** (ZEL), **Investore Property** (IPL), **Precinct Properties** (PCT), MHJ and **Meridian Energy** (MEL) were reduced. Sydney Airport was exited completely.

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

Key Fund Facts

Distributions	Estimated annual fund charges		
Calendar quarter.	Wholesale: negotiated outside of fund		
Hedging	Buy / Sell spread:	Strategy Launch Date	Strategy size
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	\$72.7m

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

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