

Factsheet 31 March 2022

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 were volatile over the quarter, initially selling off aggressively over January before drifting generally down over February. This occurred as markets fixated on firstly COVID-19, then inflation concerns, company earnings and the invasion of Ukraine.
- Somewhat surprisingly, even with the war in Ukraine confronting markets and the resulting oil (and other commodities) spiking, plus central banks acknowledging inflationary concerns, markets generally rallied in March.
- NZ 10-yr Government Bond sold off from 2.39% to 3.23% in response to the inflation outlook.
- Overall, for the quarter the United States S&P 500 index fell 5.0%, the Japanese Nikkei 225 index lost 3.4%, but the UK FTSE 100 index gained 1.8% along with the Australian ASX 200 index which rose 2.2%. The MSCI World index ended the quarter down 4.8%.

Fund Highlights

- The fund ended down 6.2% which was 0.6% ahead of the index.
- A number of the fund's holdings reported earnings results for the period ending December.
- Overweight positions in Infratil and Sky Network Television, and an underweight Ryman Healthcare added value.
- Overweight positions Summerset and Ingenia Communities, and a nil holding in Genesis Energy detracted value.

Performance

	One month	Three months	One year	Three years (p.a)	Five years (p.a)	Ten years (p.a)
Wholesale ¹	1.76%	-6.22%	1.91%	10.92%	14.47%	16.36%
Benchmark ²	1.36%	-6.85%	-2.90%	7.91%	11.93%	14.41%
Retail ³	1.51%	-5.39%				
KiwiSaver ^{3,4}	1.63%	-6.58%	0.50%	7.68%		

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}



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.

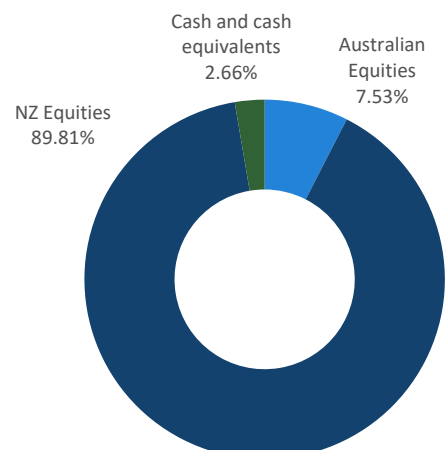
Overview

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	24.93%	24.16%
Infratil Ltd	OW	Genesis Energy	NH	Utilities	20.95%	20.27%
Ryman Healthcare	UW	Ingenia Communities	OW	Industrials	20.12%	22.51%
Sky Network Television	OW	Summerset Group	OW	Communication services	12.35%	10.00%
OW: overweight; UW: underweight; NH: no holding. *excludes restricted stocks				Real Estate	5.75%	9.51%
Top 10 Holdings				Consumer staples	3.47%	4.75%
Fisher & Paykel Healthcare	11.62%	Contact Energy	6.50%	Information technology	3.09%	1.89%
Spark New Zealand Ltd	7.88%	EBOS Group Limited	6.01%	Cash and cash equivalents	2.66%	0.00%
Mainfreight Limited	6.98%	Fletcher Building Ltd	5.46%	Consumer discretionary	2.59%	2.83%
Auckland International Airport	6.96%	Meridian Energy Ltd	4.73%	Financials	1.74%	2.51%
Infratil Limited	6.81%	Summerset Group	3.49%	Energy	1.59%	1.57%
				Materials	0.76%	0.00%
				Number of holdings	37	50

Market Commentary

Global markets much like their home domiciles, are all in different phases of dealing with or responding to COVID-19 variants and economic activity, quantitative easing unwind and inflationary concerns, hence market returns are varied. 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. With company results concluded, our focus turned to assessing cost pressures and pricing power together with the impacts of constrained supply chains. The market and Nikko are also highly focused on 'reopening beneficiaries'.

Fund Commentary

The fund ended the quarter down 6.2% and 0.6% ahead of the index return. The largest positive contributors to relative return were overweight positions in **Infratil** (IFT) and **Sky Network Television** (SKT), and an underweight in **Ryman Healthcare** (RYM). IFT up 3.1%, the company hosted a well-received investor day which provided confidence in the strong, long-term growth outlook. In addition, there was a 15% increase in the valuation of IFT's 48% investment in CDC Data Centres. SKT was up 7.4%, performed well after delivering a strong result and announcing the sale of its property in Mt Wellington. Their result entailed the first time in over five years that the company delivered revenue growth - overall and in the crucial subscriber revenue line, alongside a stabilisation in programming costs. RYM was down 23.4%, with their result slightly disappointing given the Omicron variant disrupting unit delivery and cost pressure challenging margins, in addition to changes in monetary policy and a negative outlook in the residential property sector.

The largest negative contributors to relative return were overweight positions in **Summerset** (SUM) and **Ingenia** (INA), and a nil holding in Genesis Energy (GNE). SUM down 13.5%, residential market sentiment has been challenged, driven by several factors serving to place some pressure on retirement village operators. The RBNZ raised the official cash rate for the first time in seven years, in addition there was a COVID-19 related drop in nationwide home sales, and downward net migration trends. SUM delivered a robust result, with strong growth in new sale and resale gains, somewhat offset by higher expenses. INA down 17.8%, with the company's 1H result revealing lower-than-expected new home settlements, in addition to lockdowns impacting NSW and Victorian holiday park assets. The company remains confident and guides to a materially stronger 2H. GNE was up 4.7%, after producing a solid 1H result, that also included an uplift to earnings guidance for the full year, based on better-than-expected performance from their retail business and above average hydro storage. Key portfolio changes during the quarter included adding a new position, **Charter Hall Group** (CHC) and exiting Precinct Properties NZ (PCT). Other changes included increases in **Scales** (SCL), **Meridian Energy** (MEL), and **Auckland Airport** (AIA); and reductions in **NEXTDC** (NXT), **Freightways** (FRE), and **Radius Residential Care** (RAD). (**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.

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: \$67m

Compliance

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

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