

Factsheet 30 June 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

- With the exception of China, global equity markets sold off aggressively over the quarter with inflation, increasing interest rates, labour shortages and the war in Ukraine all having an impact.
- The United States S&P 500 index fell 16.5%, the Japanese Nikkei 225 index lost 5.1%, the UK FTSE 100 index gave up 4.6%, the Australian ASX 200 index declined 11.9% and the MSCI World index ended the quarter down 12.7%.
- The S&P/NZX 50 index ended the quarter down 10.2%.

Fund Highlights

- The fund ended the quarter down 10.34% which was 0.19% ahead of the index.
- A number of the fund's holdings reported results for the period ending March. Pushpay announced they have been approached by parties interested in acquiring the company. The Z Energy takeover settled during the month.
- Overweight positions Pushpay and Spark and an underweight position in Air New Zealand added value. Overweight positions in Charter Hall and EROAD and an underweight position in Port of Tauranga detracted from value.

Performance

	One month	Three months	One year	Three years (p.a)	Five years (p.a)	Ten years (p.a)
Wholesale ¹	-4.46%	-10.34%	-11.19%	4.80%	10.94%	15.46%
Benchmark ²	-3.82%	-10.15%	-13.50%	1.86%	8.30%	13.53%
Retail ³	-4.52%	-10.26%	-	-	-	-
KiwiSaver ^{3,4}	-4.53%	-10.55%	-12.33%	1.96%	-	-

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.

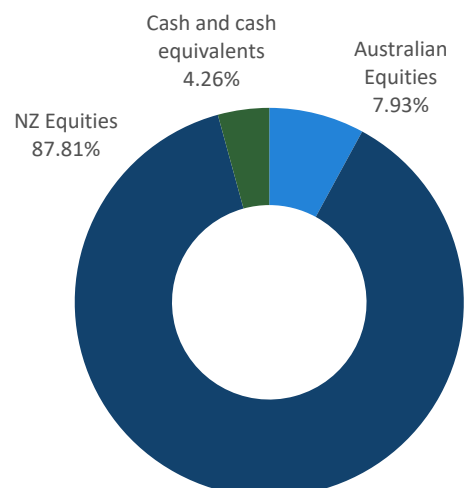
Overview

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	24.25%	23.56%
Pushpay Ltd	OW	Charter Hall	OW	Utilities	20.67%	21.22%
Air New Zealand Ltd	NH	Port of Tauranga	NH	Industrials	19.68%	22.07%
Spark NZ Ltd	OW	EROAD Ltd	OW	Communication services	13.99%	11.48%
OW: overweight; UW: underweight; NH: no holding. *excludes restricted stocks				Real estate	5.30%	9.41%
Top 10 Holdings				Cash and cash equivalents	4.26%	0.00%
Fisher & Paykel Healthcare	9.97%	Contact Energy	6.35%	Consumer staples	3.99%	4.70%
Spark New Zealand Ltd	9.25%	EBOS Group Limited	6.12%	Information technology	3.36%	1.88%
Infratil Limited	7.24%	Fletcher Building Ltd	4.72%	Consumer discretionary	2.18%	3.32%
Auckland International Airport	7.09%	Meridian Energy Ltd	4.46%	Financials	1.34%	2.36%
Mainfreight Limited	6.84%	Chorus Limited	3.28%	Materials	0.98%	0.00%
				Energy	0.00%	0.00%
				Number of holdings	38	50

Market Commentary

Inflation continues to be front of mind with a number of Central Banks including the Reserve Banks of New Zealand and Australia, the Bank of England and the US Federal Reserve all increasing cash rates over the month. Large moves up were also seen in bond yields with key 10-year rates up more than 1% intra-quarter before ending the quarter up 60 – 80 basis points. This is flowing through to weak equity and bond markets with the tech-heavy Nasdaq a standout - down 22.4% over the quarter. Earnings results were mixed with tech stocks disappointing leading to Serko, EROAD and Pacific Edge falling 20.6%, 67.6% and 29.2% respectively. EROAD was also impacted by the sudden resignation of its CEO.

Fund Commentary

The fund ended the quarter down 10.34% which was 0.19% ahead of the index return. The largest positive contributors to relative return were overweight positions in Pushpay, and Spark and nil holding in Air New Zealand. Pushpay announced they have been approached by parties interested in acquiring the company. AIR (nil holding) continues to digest its recent capital raising and faces increasing costs from fuel prices and labour shortages. AIR ended the quarter down 27.9%. SPK rose 4.8% as it benefits from its defensive earnings, high yield and potential to unlock value through the part sale of its cell tower assets.

The largest negative contributors to relative return were overweight positions in **Charter Hall** (CHC), **EROAD** (ERD) and an underweight (nil) position in Port of Tauranga (POT). Australian property securities were underperformers relative to the New Zealand property index and CHC fell 32.3% (in AUD). ERD disappointed on a number of fronts and detracted value with the stock falling ~67% over the quarter. As noted previously, the market and the board were surprised by the resignation of the founder / CEO and major shareholder. The sudden announcement notwithstanding the company's assurance that both trading and the integration of the Cortex acquisition are proceeding well continues to be viewed dimly. POT rose 0.7% as it benefits from increasing its pricing and also its relatively defensive earnings.

Key portfolio changes during the quarter included adding **Scales** (SCL) back into the fund while divesting Westpac (WBC). Positions in **Freightways** (FRE), **Mainfreight** (MFT), **Auckland International Airport** (AIA), SKT, **Pushpay** (PPH), **Ryman Healthcare** (RYM), **Investore** (IPL) and **SkyCity Entertainment** (SKC) were added to. Reductions were made in **Contact Energy** (CEN), **Meridian Energy** (MEL), **Mercury Energy** (MCY), **Fisher & Paykel Healthcare** (FPH) and **Summerset** (SUM). (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: Securities that conduct activities listed on the Schedule to Cluster Munitions Prohibition Act 2009.

Restrictions: Tobacco stocks, 'controversial weapons', fossil fuels, adult entertainment, alcohol, gambling. For more information, please refer to the Statement of Investment Policy and Objectives (SIPO) which can be found on our website <https://www.nikkoam.co.nz/invest/retail>.

Compliance

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

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