

Factsheet 31 July 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 performed strongly on the back of falling bond yields.
- Over the month the US 10-year bond yield fell 35bps, the New Zealand 10-year yield fell 45bps while the Australian 10 year fell 60bps.
- The United States S&P 500 index rose 9.1%, the Japanese Nikkei 225 index rose 5.4%, the UK FTSE 100 index increased 3.5%, the Australian ASX 200 index gained 5.8% and the MSCI World index ended the month 7.1%.
- The S&P/NZX 50 index ended the month up 5.8%.

## Fund Highlights

- The fund ended the month up 5.9%, which was 0.1% ahead of the index
- There were several investor days during the month with the likes of Fletcher Building providing positive updates.
- Vulcan Steel announced the acquisition of Ullrich Aluminium while Spark and Vodafone both announced the partial sale of their cell tower assets for attractive values.
- Overweight positions Ingenia and Mainfreight, alongside a nil holding in restricted stock Sky City added value. While overweight positions Restaurant Brands and Ramsay Health Care, alongside a nil holding in Port of Tauranga 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>   | 5.89%     | -3.48%       | -6.02%   | 5.56%             | 11.77%           | 15.59%          |
| Benchmark <sup>2</sup>   | 5.77%     | -3.17%       | -8.08%   | 2.63%             | 9.28%            | 13.69%          |
| Retail <sup>3</sup>      | 5.78%     | -3.70%       | -        | -                 | -                | -               |
| KiwiSaver <sup>3,4</sup> | 5.80%     | -3.71%       | -7.00%   | 2.56%             | -                | -               |

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<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.

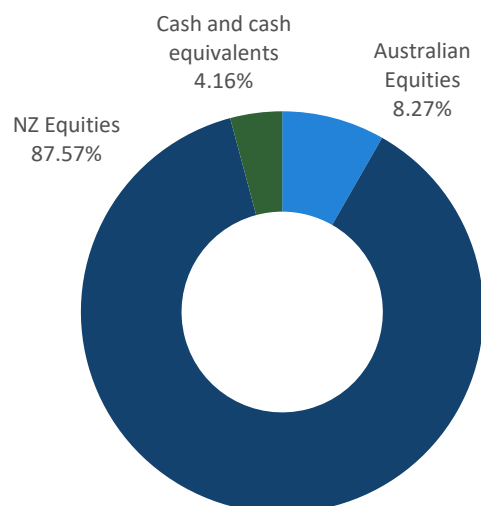
## Overview

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 (for the month) *                                 |       |                       |       | Sector Allocation         | Fund      | Benchmark |
|--|-------|-----------------------|-------|---------------------------|-----------|-----------|
| <b>What Helped:</b>  |       | <b>What Hurt:</b>     |       | Health care               | 23.83%    | 23.38%    |
| Ingenia Communities  | OW    | Restaurant Brands     | OW    | Utilities                 | 20.87%    | 21.50%    |
| Mainfreight Ltd  | OW    | Port of Tauranga      | NH    | Industrials               | 19.69%    | 22.27%    |
| Charter Hall Group   | OW    | Ramsey Healthcare     | OW    | Communication services    | 14.02%    | 11.64%    |
| OW: overweight; UW: underweight; NH: no holding. *excludes restricted stocks |       |                       |       | Real estate               | 5.61%     | 9.42%     |
| <b>Top 10 Holdings</b>   |       |                       |       | Cash and cash equivalents | 4.16%     | 0.00%     |
| Fisher & Paykel Healthcare   | 9.88% | Contact Energy        | 6.29% | Consumer staples          | 3.79%     | 4.49%     |
| Spark New Zealand Ltd  | 9.26% | EBOS Group Limited    | 5.83% | Information technology    | 3.43%     | 1.88%     |
| Infratil Limited   | 7.45% | Fletcher Building Ltd | 4.56% | Consumer discretionary    | 1.98%     | 3.00%     |
| Mainfreight Limited  | 7.10% | Meridian Energy Ltd   | 4.46% | Financials                | 1.40%     | 2.42%     |
| Auckland International Airport   | 6.95% | Chorus Limited        | 3.42% | Materials                 | 1.22%     | 0.00%     |
|  |       |                       |       | Energy                    | 0.00%     | 0.00%     |
|  |       |                       |       | <b>Number of holdings</b> | <b>39</b> | <b>50</b> |

## Market Commentary

With the exception of China, global equity markets performed strongly on the back of falling bond yields. Central banks around the world continue to raise cash rates as they battle the highest inflation rates in decades. These rate increases and outlook for more is flowing through to concerns around economic growth with the United States now in a technical recession after reporting its second quarter of negative growth. These growth concerns have resulted in bond yields falling with the likes of the United States, New Zealand and Australia seeing their 10-year bond yields fall between 35 and 60 basis points over the month. Lower bond yields have been supportive of equity markets.

## Fund Commentary

The fund ended the month up 5.9%, which was 0.1% ahead of the index return. The largest positive contributors to relative return were overweight positions **Ingenia (INA)**, **Mainfreight (MFT)** and **Charter Hall (CHC)**. **INA** up 16.6% had a strong month following their market update and a period of weak share price performance. The company confirmed that settlements are expected to fall within their target range and in addition reaffirmed FY22 earnings guidance. **MFT** up 12.1%, with their Annual General Meeting including a trading update for the first 16 weeks of FY23. This revealed that all three operating divisions grew strongly on the same period last year, in terms of revenue and profit. The largest negative contributors to relative return were from overweight positions **Restaurant Brands (RBD)** and **Ramsay Health Care (RHC)**, alongside a nil holding in Port of Tauranga (POT). **RBD** down 11.1%, after providing their 2Q trading update. Despite challenging conditions, the company delivered robust sales revenue growth of 10.2% for the second quarter and 8.2% for the first half of FY23. However, profit guidance for the half year disappointed, with a contraction expected versus last year due to significant cost inflation pressuring margins. Management believe they have levers to address but will take some time to manifest. **RHC** down 4.2%, with the share price being driven by a combination of fundamentals and speculation regarding potential for corporate action. On the former, there is uncertainty relating to the pace of post COVID normalization in patient visitation rates. Whereas, for the latter, there are some concerns in relation to the completion of the proposed KKR transaction. **POT** up 12.2%, after demonstrating the company's ability to more than offset cost inflation via a material lift in the rates charged for its services from the 1st of July 2022.

Key portfolio changes during the month included an increase **Allkem (AKE)**, and a decrease in **NextDC (NXT)**. (**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 month.

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