

Factsheet 31 August 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 mixed during August.
- Over the month the US 10-year bond yield rose 54bps, the New Zealand 10-year yield increased 56bps while the Australian 10-year ended up 54bps.
- The United States S&P 500 index fell 4.2%, the Japanese Nikkei 225 index rose 1.0%, the UK FTSE 100 index lost 1.9%, the Australian ASX 200 index gained 1.2% and the MSCI World index ended the month down 2.3%.
- The S&P/NZX 50 index ended the month up 1.0%.

Fund Highlights

- The fund ended the month up 1.4% which was 0.4% ahead of the index.
- A number of New Zealand and Australian companies reported results for the period ended June.
- Overweight positions in Infratil, Allkem and a nil holding in Precinct Properties added value. Overweight positions in Restaurant Brands, Ingenia and a nil holding in Air New Zealand detracted from value.

Performance

	One month	Three months	One year	Three years (p.a)	Five years (p.a)	Ten years (p.a)
Wholesale ¹	1.38%	2.56%	-9.42%	6.30%	11.13%	15.38%
Benchmark ²	0.96%	2.70%	-11.62%	3.25%	9.13%	13.41%
Retail ³	1.27%	2.28%				
KiwiSaver ^{3,4}	1.28%	2.30%	-10.71%	3.44%		

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.

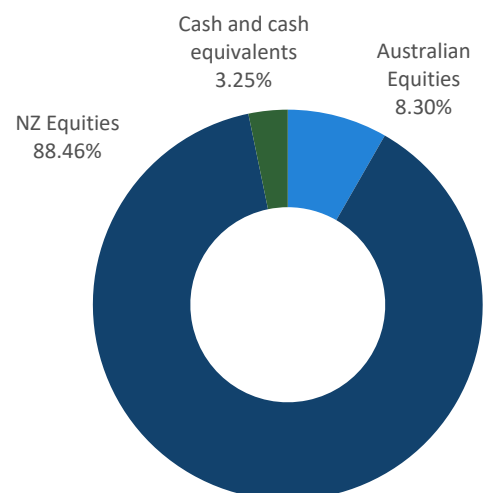
Overview

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 month) *				Sector Allocation	Fund	Benchmark
What Helped:		What Hurt:		Health care	22.34%	22.16%
Infratil Ltd	OW	Restaurant Brands	OW	Utilities	21.69%	21.81%
Precinct Properties NZ	NH	Air New Zealand Ltd	NH	Industrials	19.67%	22.31%
Allkem Ltd	OW	Ingenia	OW	Communication services	14.79%	12.08%
OW: overweight; UW: underweight; NH: no holding. *excludes restricted stocks				Real estate	5.56%	9.24%
Top 10 Holdings				Consumer staples	4.61%	5.31%
Spark New Zealand Ltd	9.90%	Contact Energy	6.52%	Information technology	3.58%	1.80%
Fisher & Paykel Healthcare	8.46%	EBOS Group Limited	5.85%	Cash and cash equivalents	3.25%	0.00%
Infratil Limited	8.09%	Fletcher Building Ltd	4.98%	Consumer discretionary	1.85%	2.98%
Auckland International Airport	7.08%	Meridian Energy Ltd	4.52%	Financials	1.39%	2.31%
Mainfreight Limited	6.63%	The A2 Milk Co. Ltd	3.64%	Materials	1.27%	0.00%
				Number of holdings	38	50

Market Commentary

Global equity markets were mixed during August. This was partly driven by the Australasian earnings season, in addition to bond yield movements. While company earnings results were generally as expected, labour availability, increasing wages and rising interest rates are the key issues that companies are having to manage. Central banks continue their battle against inflation with cash rate hikes. Both the Reserve Bank of Australia and Reserve Bank of New Zealand increased their official cash rates by 50 basis points. Bond yields continue to be volatile with 10-year government bond yields for New Zealand, Australia and the United States up 56bps, 54bps and 54bps respectively.

Fund Commentary

The fund ended the month up 1.4%, which was 0.4% ahead of the index return. The largest positive contributors to relative return were Infratil (IFT), Allkem (AKE) and a nil holding in Precinct Properties (PCT) added value. IFT up 8.0%, announced new capital and co-investor for Longroad Energy, a deal which values the business at US\$2bn, representing a material lift against prior estimates. In addition, IFT held their annual general meeting and reaffirmed full-year earnings guidance. AKE up 24.0%, their full-year result revealed record profits, in addition to optimism regarding future pricing and forthcoming projects. PCT down 5.6%, their full-year result confirmed that Covid19 held them back over the period. Looking to next financial year, distribution guidance was lower than market expectations due to interest cost headwinds.

The largest negative contributors to relative return were from overweight positions Restaurant Brands (RBD), Ingenia (INA) and a nil holding in Air New Zealand (AIR). RBD down 15.5%, released their half-year result, in line with guidance provided in July. Significant cost pressures have dented their near-term earnings prospects although management remain confident that they can achieve margin restoration. AIR up 11.5%, their full-year result revealed a record annual loss and their third loss in a row. Although, the weakness is understandable given how Covid19 has curbed domestic and international travel. Nevertheless, the market took confidence from their expectation for a significant improvement in financial performance as travel demand rebounds. INA down 7.0%, delivered a solid full-year result considering the difficult environment. Earnings were in the middle of their updated range. Supply chain constraints were flagged as a key risk for the period ahead. However, there is no change to the long-term positive dynamics.

Key portfolio changes during the month included an increase to Serko (SKO) and Pacific Edge (PEB). Also, a decrease in Freightways (FRE) and Fisher & Paykel Healthcare (FPH). (**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>.

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:	Strategy Launch Date	Strategy size
0.29% / 0.29%	January 2008	\$64.3m

Compliance

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

Contact Us

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