

# 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 had a strong quarter on the back of lower-than-expected inflation in the United States and the prospect of smaller than expected increases in the Federal Reserve's funds rate.
- The United States S&P 500 index rose 7.1%, the Japanese Nikkei 225 index added 0.6%, the UK FTSE 100 index gained 8.1%, the Australian ASX 200 index increased 9.4% and the MSCI World index ended the quarter up 7.4%.
- The S&P/NZX 50 index ended the quarter up 3.8%.

## Fund Highlights

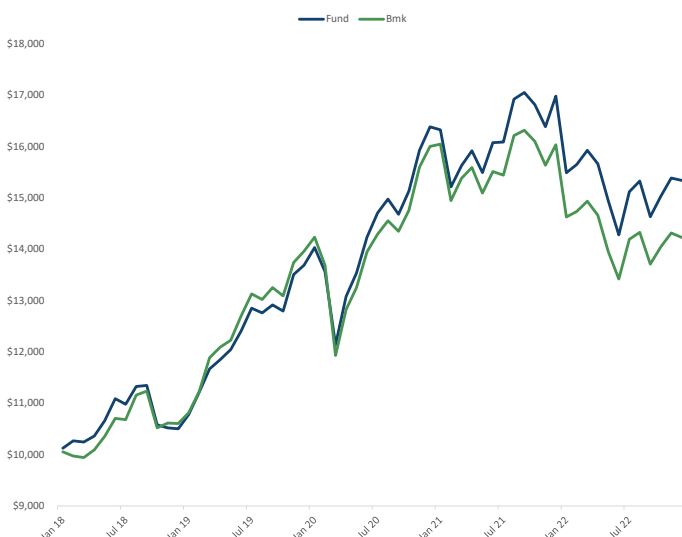
- The fund ended the quarter up 4.82%, 1.03% ahead of the index return.
- A number of the fund's holdings reported earnings for the period ended September.
- EROAD was removed from the S&P/NZX 50 index while Vulcan Steel was added.
- Underweight position Ryman Healthcare, overweight position Pushpay and a nil holding in restricted Sky City added value.
- Overweight positions Allkem and Summerset, and an underweight in Fisher and Paykel detracted from value.

## Performance

	One month	Three months	One year	Three years (p.a)	Five years (p.a)	Ten years (p.a)
Wholesale <sup>1</sup>	-0.32%	4.82%	-9.68%	3.86%	8.93%	14.02%
Benchmark <sup>2</sup>	-0.61%	3.79%	-11.25%	0.64%	7.31%	12.08%
Retail <sup>3</sup>	-0.40%	4.60%	-9.49%	-	-	-
KiwiSaver <sup>3,4</sup>	-0.39%	4.60%	-10.64%	1.19%	-	-

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 12 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.

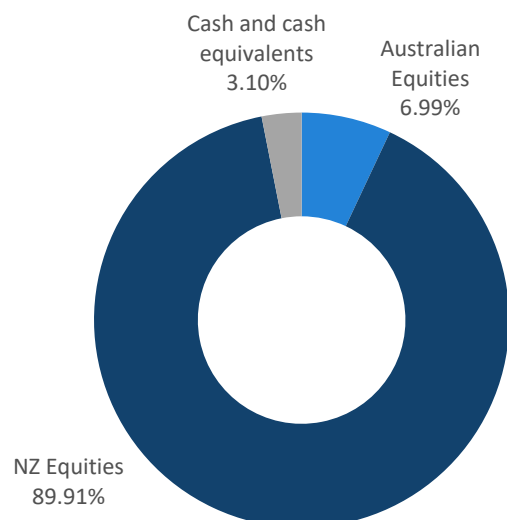
## Overview

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
<b>What Helped:</b>		<b>What Hurt:</b>		Utilities	22.86%	21.77%
Ryman Healthcare Ltd	UW	Fisher & Paykel Health	UW	Health care	22.50%	22.74%
SkyCity Entertainment Group	NH	Allkem Ltd	OW	Industrials	18.85%	21.85%
Pushpay Holdings Ltd	OW	Summerset Group	OW	Communication services	14.90%	12.24%
OW overweight; UW underweight; NH no holding; RS restricted stock.				Consumer staples	5.68%	6.01%
<b>Top 10 Holdings</b>				Real estate	4.19%	8.41%
Fisher & Paykel Healthcare	10.54	Mainfreight Limited	6.03	Information technology	3.68%	1.51%
Spark New Zealand Ltd	10.29	EBOS Group Limited	5.82	Cash and cash equivalents	3.10%	0.00
Infratil Limited	8.46	The A2 Milk Company	5.05	Materials	1.53%	0.43%
Auckland International Airport	7.70	Meridian Energy Ltd	4.41	Consumer discretionary	1.22%	2.56%
Contact Energy Limited	7.03	Fletcher Building Ltd	4.11	Energy	1.08%	0.00
				Financials	0.41%	2.48%
				<b>Number of holdings</b>	<b>38</b>	<b>50</b>

## Market Commentary

Global equity markets are jumping at any sign that interest rates will not peak as high as initially expected. United States inflation came in at 7.7% which was below what the market was expecting. This led to the Nasdaq leaping more than 7% and the S&P 500 more than 5% on the day. Notwithstanding the market view, inflation remains high and central banks are focused on getting it under control and as a result cash rates continue to be increased. The US Federal Reserve, the Bank of England, the European Central Bank and the Reserve Bank of New Zealand all increased their cash rates by 1.25% while the Reserve Bank of Australia increased their cash rate by 0.75%. The New Zealand official cash rate is now 4.25% and the RBNZ is signalling that it will peak at 5.5%.

## Fund Commentary

The fund ended the quarter up 4.82% which was 1.03% ahead of the index return. The largest positive contributors to relative return were underweight position **Ryman Healthcare (RYM)**, overweight position **Pushpay (PPH)** and a nil holding in restricted Sky City (SKC). RYM decreased by 36.7%. The company's result revealed operational performance which was relatively solid. However, also showed that debt continued to grow, now exceeding \$3.0bn and some cash generation issues. These issues are alongside falling residential property prices and negative housing market sentiment. PPH increased by 16.4%. The company received a NZ\$1.34 per share takeover offer from a group comprising its largest shareholder and an Australian private equity firm. Restricted stock SKC decreased by 12.6%. The largest negative contributors to relative return were from overweight positions **Allkem (AKE)** and **Summerset (SUM)**, and an underweight in **Fisher and Paykel (FPH)**. AKE decreased by 17.7%. The volatile stock gave up some of the gains made through 2022. Despite the positive outlook for the lithium market, there has been some moderation to near-term expectations based on a potentially slower rate of demand growth. FPH increased by 23.5%. The company result delivered a beat to market expectations, and this drove a strong reaction after a long period of underperformance. SUM decreased by 17.9%. Investors remain cautious of its residential property exposure given falling house prices and increasing mortgage rates. House prices are decreasing and there is uncertainty around the outlook. As a result, sentiment is negative despite resilient operating performance to date.

Key portfolio changes during the quarter included exiting Westpac Bank (WBC). Increases in **Allkem (AKE)**, **NextDC (NXT)** and **Channel Infrastructure (CHI)**. Decreases in **Stride Property (SPG)**, **ANZ Bank (ANZ)**, and **Waypoint (WPR)**. (**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.

**Contact Us** [www.nikkoam.co.nz](http://www.nikkoam.co.nz) | [zenquiries@nikkoam.com](mailto:zenquiries@nikkoam.com)

This document is issued by Nikko Asset Management New Zealand Limited (Company No. 606057, FSP No. FSP22562), the investment manager of the Nikko AM NZ Investment Scheme, the Nikko AM NZ Wholesale Investment Scheme and the Nikko AM KiwiSaver Scheme. This information is for the use of researchers, financial advisers and wholesale clients. This material has been prepared without taking into account a potential investor's objectives, financial situation or needs and is not intended to constitute personal financial advice and must not be relied on as such. Recipients of this document, who are not wholesale investors (in accordance with Schedule 1, Clause 3 Financial Markets Conduct Act 2013), or their duly appointed agent, should consult a Financial Advice Provider and the relevant Product Disclosure Statement. Past performance is not a guarantee of future performance. While we believe the information contained in this presentation is correct at the date of presentation, no warranty of accuracy or reliability is given, and no responsibility is accepted for errors or omissions including where provided by a third party. For full details on the fund, please refer to our Product Disclosure Statement on [nikkoam.co.nz](http://nikkoam.co.nz).