

Factsheet 30 September 2023

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 struggled over the quarter as sticky inflation saw bond yields spike and central banks push out the timing of interest rate cuts.
- The United States S&P 500 index fell 3.7%, the Japanese Nikkei 225 declined 4.0%, the UK FTSE 100 index gained 1.0%, the Australian ASX 200 index lost 0.8% and the MSCI World index ended the month down 2.5%.
- The S&P/NZX 50 index had a tough month ending down 4.8%.

Fund Highlights

- The fund delivered a negative return of -4.7% over the quarter, marginally ahead of benchmark.
- News flow in the September quarter was dominated by companies announcing their earnings results for the period ending June.
- Overweight positions in Infratil, Contact Energy and Sky TV added value. Overweight positions in Allkem, Restaurant Brands and an underweight (nil holding) in Heartland Bank detracted from value.

Performance

	One month	Three months	One year	Three years (p.a)	Five years (p.a)	Ten years (p.a)
Wholesale ¹	-1.83%	-4.73%	5.77%	1.78%	6.40%	12.24%
Benchmark ²	-1.87%	-4.82%	3.01%	-0.53%	4.68%	10.19%
Retail ³	-1.92%	-4.95%	4.81%			
KiwiSaver ^{3,4}	-1.90%	-4.93%	4.82%	0.52%	3.95%	

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 Communication Services, Transport 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.

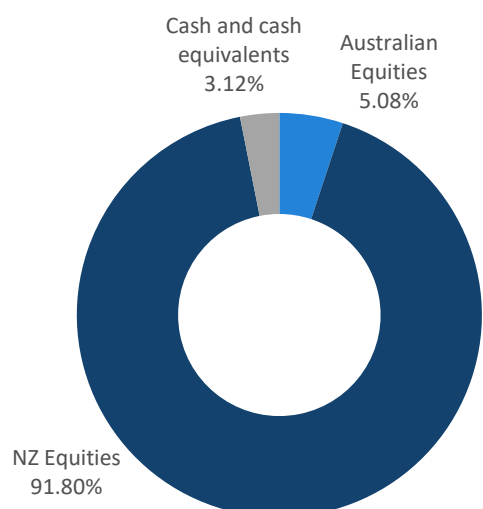
Overview

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 (Quarter)			
What Helped:		What Hurt:	
Infratil	OW	Allkem	OW
Contact Energy	OW	Restaurant Brands	OW
Sky TV	OW	Heartland Bank	NH
OW overweight; UW underweight; NH no holding; RS restricted stock			
Top 10 Holdings (% of fund)			
Fisher & Paykel Healthcare	10.62	Meridian Energy	5.09
Infratil	10.62	EBOS Group	4.86
Spark New Zealand	10.08	Mainfreight	4.78
Auckland Int. Airport	8.69	Ryman Healthcare	4.48
Contact Energy	7.94	Summerset Group	3.63

Sector Allocation (% of fund)	Fund	Benchmark
Utilities	26.72	24.81
Health care	25.41	22.77
Industrials	17.47	22.83
Communication services	15.50	11.16
Consumer staples	3.57	3.89
Cash and cash equivalents	3.12	0.00
Real estate	2.39	8.27
Information technology	2.15	0.69
Materials	1.29	0.45
Consumer discretionary	1.25	2.25
Energy	1.13	0.34
Financials	0.00	2.54
Number of holdings	29	50

Market Commentary

Global equity markets struggled over the quarter as sticky inflation saw bond yields spike and central banks push out the timing of interest rate cuts. In its August Monetary Policy Statement (MPS), the Reserve Bank of New Zealand pushed out its expectations for rate cuts from late 2024 to early 2025, about six months later than it had signalled at its May MPS. The New Zealand company earnings results saw most meet expectations, but the disappointment came in the outlook statements which were impacted by continued operating cost inflation and interest rate impacts. New Zealand investors will be focusing on the general election on the 14th of October with the hope that a clear outcome eventuates without having to have a drawn-out negotiation between potential coalition partners.

Fund Commentary

The fund delivered a negative return of -4.73% over the quarter. The largest positive contributors to the fund's relative return were overweight positions in **Infratil** (IFT), **Contact Energy** (CEN) and **Sky TV** (SKT). IFT increased by 0.6%. The company advised that they expect earnings to be towards the top of previous guidance. In addition, the market has been lifting expectations around the value of key exposures, namely that of Longroad Energy and CDC Data Centres. CEN increased by 2.6%. This was on the back of stronger-than-expected earnings guidance for FY24, as well as reaffirming its positive outlook for further development-driven earnings growth over the next few years. Sky TV (SKT) increased by 6.8%. The company delivered a result broadly in line with expectations. Content costs have stabilised and complement success in broader cost control efforts. Management have confidence in their ability to attract new customers and grow their user base.

The largest negative contributors to the fund's relative return were from overweight positions in **Allkem** (AKE), **Restaurant Brands** (RBD) and an underweight (nil holding) in **Heartland Bank** (HGH). AKE decreased by 26.6%. Giving back much of the gains it had previously achieved year-to-date. The company has been affected by deteriorating commodity prices. In addition to announcing a slight delay to certain key lithium projects. Near term the market will await the independent expert report relating to the proposed merger with US listed Livent Corp and a subsequent shareholder vote by calendar year end. RBD decreased by 31.2%. RBD reversed the optimistic outlook delivered at their May Annual Shareholder Meeting. Instead warning of ongoing cost pressures and an inability to pass these through to the customer without unduly tarnishing brand loyalty. Heartland (HGH) increased by 9.8%. The bank boosted its full year profit in tough trading conditions and expects further improvement in the new financial year.

Key portfolio changes during the quarter included exiting ANZ (ANZ) and Stride Property (SPG). Adding to our positions in **Allkem** (AKE), **NextDC** (NXT) and **Summerset** (SUM). Positions were reduced in **Mainfreight** (MFT), **Fisher & Paykel Healthcare** (FPH), **Channel Infrastructure** (CHI). (**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

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

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: Controversial weapons (including but not limited to cluster munitions and chemical, biological and nuclear weapons).

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

Buy / Sell spread:	Strategy Launch Date	Strategy size
0.29% / 0.29%	January 2008	\$59.3m

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

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