

Factsheet 31 January 2021

NIKKO AM SRI EQUITY STRATEGY

Applies to: Nikko AM Wholesale SRI Equity Fund

Market Overview

- Global equity markets delivered mixed performance.
- Most indices started the year well, yet some slipped toward the end of the month as the market grew apprehensive over Reddit Group driven volatility; delays in vaccine rollouts; and the final size of the US stimulus package.
- The MSCI World index was relatively flat, ending the month down 0.2%.
- The United States S&P 500 index fell 1.1%, the UK FTSE 100 index fell 0.8%; while the Japanese Nikkei 225 index gained 0.8%.
- Locally, the NZX 50 index and the Australian ASX 200 index both rose 0.3%.

Fund Highlights

- The fund produced a negative 0.37% absolute return for the month, 0.65% behind the benchmark.
- Nil holdings in restricted stock SkyCity, Air NZ and Pacific Edge added value.
- An overweight position in Contact Energy and nil holdings in Freightways and Genesis Energy detracted value.

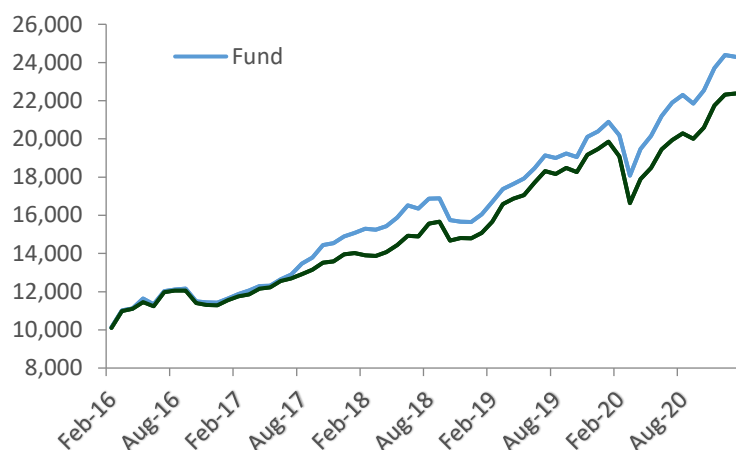
Performance

| | One month | Three months | One year | Three years (p.a) | Five years (p.a) | Ten years (p.a) |
|------------------------|-----------|--------------|----------|-------------------|------------------|-----------------|
| Wholesale ¹ | -0.37% | 7.85% | 16.33% | 17.26% | 19.43% | 17.05% |
| Benchmark ² | 0.28% | 8.71% | 12.72% | 16.86% | 17.48% | 15.87% |

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.

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.



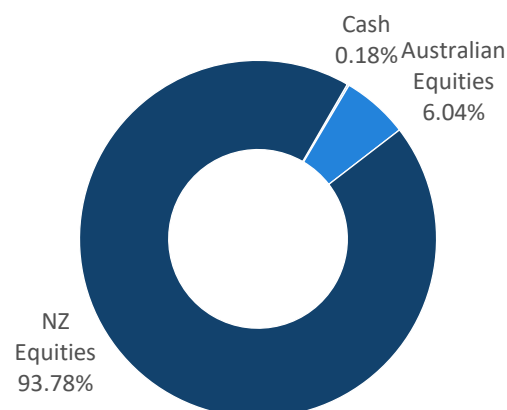
Overview

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 (month)* | | | | Sector Allocation | | |
|---|--------|--------------------------|-------|--------------------------------|-----------|--------|
| What Helped: | | What Hurt: | | Fund | Benchmark | |
| Air New Zealand | NH | Contact Energy | OW | Health Care | 26.27% | 26.34% |
| Pacific Edge | NH | Freightways Ltd | NH | Utilities | 23.24% | 20.77% |
| Fisher & Paykel | OW | Genesis Energy | NH | Industrials | 12.83% | 15.50% |
| OW: overweight; UW: underweight; NH: no holding | | | | Communication Services | 11.35% | 9.54% |
| Top 10 Holdings | | | | Consumer Staples | 7.13% | 7.70% |
| Fisher & Paykel Healthcare | 16.12% | Infratil Limited | 6.35% | Real Estate | 6.35% | 8.93% |
| Spark New Zealand Limited | 8.01% | Mainfreight Limited | 6.32% | Materials | 3.75% | 3.78% |
| Meridian Energy Lt Npv | 7.16% | Contact Energy Limited | 6.23% | Information Technology | 3.38% | 1.66% |
| The A2 Milk Company Limited | 6.84% | Summerset Group Holdings | 4.22% | Energy | 1.44% | 1.13% |
| Auckland International Airport | 6.51% | Fletcher Building Ltd | 3.75% | Consumer Discretionary | 2.31% | 2.60% |
| | | | | Financials | 1.77% | 2.05% |
| | | | | Cash | 0.18% | 0.00% |
| | | | | Number of holdings fund | 29 | |

*excludes restricted stocks

Market Commentary

Market focus centered on the ongoing Covid-19 pandemic, the US corporate reporting season, the inauguration of President Biden, further US stimulus package negotiations and the unexpected volatility driven by Reddit Groups.

Covid-19 mutations have cast some doubt over the efficacy of vaccines against the new variant strains of the virus. In addition, there have been certain delays in vaccine rollouts. Consequently, amplifying concern that the virus will hamper economic growth for longer than expected. On US earnings, a large number of US S&P 500 companies reported their earnings in January, with the remainder reporting in February. Based on the strength of the results so far, a sizeable outperformance of market expectations (set pre-reporting season) looks likely. The financial services, information technology and communications sectors have been particularly strong. The inauguration of President Biden as the 46th president of the United States took place on the 20th January 21. As Trump's tumultuous reign ends, Democrats have control of the house, the Senate and the Presidency, fulfilling the 'blue wave' outcome, as forecasted by some expert's pre-election. With regard to the forthcoming US stimulus agreement, a generous package is somewhat already priced into the market and as a result, the White House's explicit preference for bipartisan support is causing some concern that the size and scope of the package may be compromised by this insistence. Reddit Groups surprised the market with their aggregated efforts to buy the shares of target companies identified as having heavy short interest exposure held by certain hedge funds and institutional investors. The subsequent short squeeze, volatility and uncertainty increased risk aversion among sophisticated market participants.

Fund Commentary

The fund produced a negative 0.37% absolute return for the month. The largest positive relative returns were from nil holdings in restricted stock **SkyCity** (SKC), **Air NZ** (AIR) and **Pacific Edge** (PEB). AIR had a very strong December quarter but gave up some of the gains in January falling 11.7% over the month. Further Covid-19 complications have meant the anticipated establishment of travel bubbles, crucial to industry earnings, now appear less likely in the near-term. PEB fell 11.5% in January. The stock rose by more than 70% in December and so a pullback was not unexpected.

The largest negative relative returns were from an overweight position in **Contact Energy** (CEN) and nil holdings in **Freightways** (FRE) and **Genesis Energy** (GNE). The Utilities sector had a volatile month, with significant industry develop's in the form of an agreement being reached with Rio Tinto, that the NZ Aluminum Smelter closure will be delayed until the end of 2024. In addition, Exchange traded fund (ETF) flows attracted to renewable energy sources, appear to be further contributing to the industry volatility. CEN gave up 8.3% in January, while GNE gained 8.1%. FRE had a strong month, rising 9% as the market becomes more attracted to the domestic cyclical recovery, given better than expected macro conditions.

Key portfolio changes during the month included an increase in **NextDC** (NXT); **ANZ Bank** (ANZ); **Waypoint REIT** (WPR); and **Michael Hill International** (MHJ). In addition to decreases in **Scales Corp** (SCL); and **Z Energy** (ZEL).

(Bold denotes stocks held in the portfolio)

Key Fund Facts

| | | | |
|---|---------------------------------------|-----------------------------|----------------------|
| Distributions | Estimated annual fund charges | | |
| Calendar quarter. | Wholesale: negotiated outside of fund | | |
| Hedging | Buy / Sell spread: | Strategy Launch Date | Strategy size |
| 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. | 0.29% / 0.29% | January 2008 | \$74.5m |

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

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