

Factsheet 30 September 2021

NIKKO AM SRI EQUITY STRATEGY

Applies to: Nikko AM Wholesale SRI Equity Fund

Market Overview

- Global equity markets were mixed over the quarter with the prospect of interest rate increases in 2022, Chinese regulation of industries and companies and the potential collapse of the Evergrande Group weighing on markets. On the positive side, the rollout of COVID-19 vaccines allowed more freedom in a number of countries. Locally the Reserve Bank of New Zealand was set to raise the Official Cash Rate before a surprise COVID-19 outbreak in New Zealand put that on hold.
- The MSCI World index ended the month down 0.4%. The United States S&P 500 index rose 0.2%, the Japanese Nikkei 225 index gained 2.3%, the UK FTSE 100 index increased 0.7%. Locally, the S&P/NZX 50 index had a strong quarter rising 5.2%, while the Australian ASX 200 index added 1.7%.

Fund Highlights

- The fund produced a positive 6.06% return for the quarter.
- Overweight positions in Summerset, EBOS and Mainfreight added value.
- Overweight positions in EROAD, Michael Hill and an underweight in Ryman detracted value.

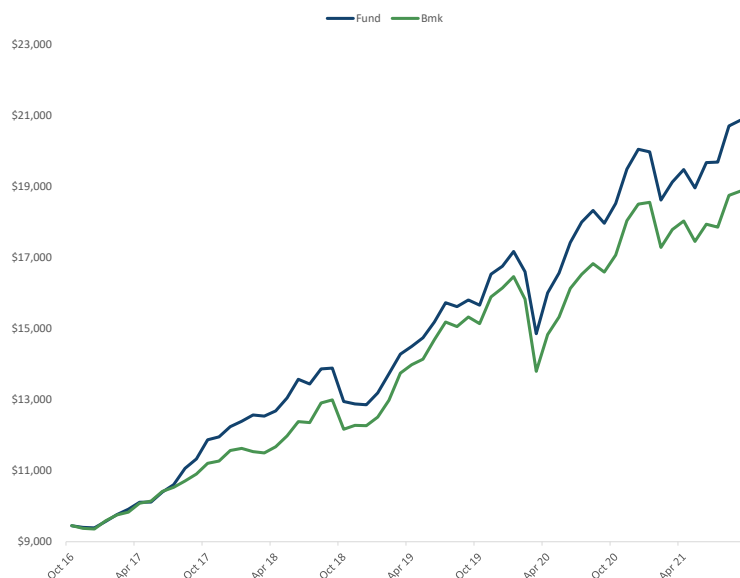
Performance

	One month	Three months	One year	Three years (p.a)	Five years (p.a)	Ten years (p.a)
Wholesale ¹	0.77%	6.06%	16.15%	14.54%	15.86%	17.68%
Benchmark ²	0.63%	5.17%	13.72%	13.24%	13.55%	16.05%

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.

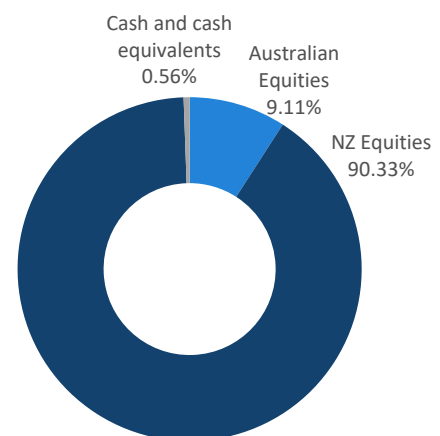
Overview

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 (for the quarter) *				Sector Allocation (as at quarter end)		Fund	Benchmark
What Helped:		What Hurt:		Health care		27.35%	26.90%
Sydney Airport	OW	APN Industria REIT	OW	Industrials		20.35%	22.64%
Mainfreight	OW	Pacific Edge	UW	Utilities		18.70%	18.92%
Summerset Group	OW	Z Energy	UW	Communication services		10.42%	9.06%
OW: overweight; UW: underweight; NH: no holding. *excludes restricted stocks				Real estate		6.94%	9.01%
Top 10 Holdings (at quarter end)				Information technology		4.88%	2.23%
Fisher & Paykel Healthcare	13.65%	Fletcher Building	5.62%	Consumer staples		3.10%	4.94%
Mainfreight Ltd	7.12%	Auck. Int Airport	5.53%	Financials		2.73%	2.03%
Spark New Zealand Ltd	7.03%	Summerset Ltd	4.91%	Consumer discretionary		2.57%	2.95%
Infratil Ltd	6.23%	EBOS Ltd	4.73%	Energy		2.40%	1.32%
Contact Energy Ltd	6.21%	Meridian Energy	3.81%	Cash and cash equivalents		0.56%	0.00%
				Number of holdings		38	50

Market Commentary

Global equity markets were mixed over the quarter with the prospect of interest rate increases in 2022, Chinese regulation of industries and companies and the potential collapse of the Evergrande Group weighing on markets. The Chinese equity market was particularly affected with the CSI 300 index down 6.9% over the quarter. Despite the spread of the Delta variant of COVID-19 around the world the vaccine rollout has enabled more freedom in many countries. With inflation moving higher and unemployment low the Reserve Bank of New Zealand was set to raise the Official Cash Rate before a surprise COVID-19 outbreak in New Zealand put that on hold. Earnings results in New Zealand for the period ending June were good but with the COVID-19 outbreak the near-term outlook is uncertain.

Fund Commentary

The fund produced a positive 6.06% return for the quarter. The largest positive relative returns were from overweight positions in **Sydney Airport** (SYD), **Summerset** (SUM) and **Mainfreight** (MFT) SYD jumped 38.9% after announcing an indicative non-binding bid from a consortium of the investors at \$8.25, a circa 42% premium to the pre-bid price. SUM up 14%, as they continue their excellent strategic execution. The company reported a very strong half year result, including a better-than-expected build rate for the year and alongside a supportive underlying housing market. MFT up 27%, continued its rally post a strong beat earlier in the year. The market has upwardly revised next year's earnings expectations, and industry insights suggest the positive tailwinds are continuing.

The main detractors from relative performance were a modest underweight position in Pacific Edge (PEB) and Z Energy (ZEL) (underweight on average over the quarter, although the fund ended the quarter overweight), together with nil positions in Skellerup Holdings and Heartland Group. The effective impact of these positions was minor.

(**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	\$70.1m

Compliance

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

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