

Factsheet 30 November 2021

NIKKO AM SRI EQUITY STRATEGY

Applies to: Nikko AM Wholesale SRI Equity Fund

Market Overview

- Global equity markets took a hit during November as investors became nervous following the announcement of another COVID-19 variant, Omicron. Inflation continues to be relatively high in a number of economies and as a result there is a focus on the response from Central Banks. The Reserve Bank of New Zealand followed up last month's increase in the official cash rate (OCR) with another 25 basis point increase taking the OCR to 75 basis points.
- The United States S&P 500 index fell 0.8%, the Japanese Nikkei 225 index lost 3.7%, the UK FTSE 100 index gave up 2.5%, the Australian ASX 200 index declined 2.5% and the MSCI World index ended the month down 1.7%.
- The S&P/NZX 50 index ended the month down 2.9%.

Fund Highlights

- The fund produced a negative 2.5% absolute return for the month, around 0.4% ahead of the benchmark.
- An overweight position in Michael Hill, an underweight in Ryman Healthcare, and a nil holding in Genesis Energy added value.
- Overweight positions in Pushpay, Summerset and Westpac detracted value.
- News flow was high during the month with a number of the fund's holdings reporting earnings for the period ended 30 September 21, along with several capital raisings.

Performance

	One month	Three months	One year	Three years (p.a)	Five years (p.a)	Ten years (p.a)
Wholesale ¹	-2.54%	-3.16%	2.89%	15.91%	16.36%	17.41%
Benchmark ²	-2.89%	-3.57%	0.23%	13.78%	14.04%	15.80%

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.

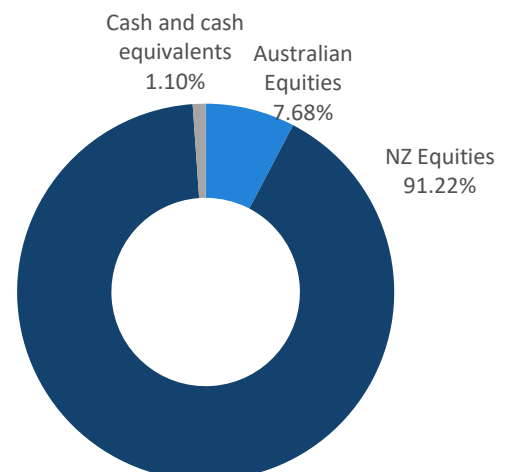
Overview

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 month) *				Sector Allocation (as at month end)	Fund	Benchmark
What Helped:		What Hurt:		Health care	28.83%	27.23%
Michael Hill	OW	PushPay Holdings	OW	Industrials	19.52%	22.93%
Ryman Healthcare	UW	Summerset Ltd	OW	Utilities	17.73%	18.77%
Genesis Energy	NH	Westpac Bank	OW	Communication services	11.12%	9.20%
OW: overweight; UW: underweight; NH: no holding. *excludes restricted stocks				Real estate	6.91%	8.95%
Top 10 Holdings (at month end)				Information technology	3.91%	1.77%
Fisher & Paykel Healthcare	14.81%	Auck. Int Airport	5.69%	Consumer staples	3.68%	4.88%
Spark New Zealand Ltd	7.66%	Fletcher Building	5.51%	Consumer discretionary	2.82%	2.87%
Mainfreight Limited	7.20%	EBOS Group Ltd	4.76%	Financials	1.96%	1.99%
Infratil Limited	6.10%	Summerset Ltd	4.14%	Energy	1.79%	1.41%
Contact Energy Limited	5.88%	The A2 Co. Ltd	3.52%	Cash and cash equivalents	1.10%	0.00%
				Materials	0.63%	0.00%
				Number of holdings	39	50

Market Commentary

Global equity markets took a hit during November as investors became nervous following the announcement of another COVID-19 variant, Omicron. Inflation continues to be relatively high in a number of economies and as a result there is a focus on the response from Central Banks. The Reserve Bank of New Zealand followed up last month's increase in the official cash rate (OCR) with another 25 basis point increase taking the OCR to 75 basis points. Company results announced during the month highlighted cost pressures being faced - in particular those related to wages or those impacted by constrained supply chains.

Fund Commentary

The fund produced a negative 2.5% absolute return for the month. The largest positive relative returns were from an overweight position in **Michael Hill** (MHJ), an underweight in **Ryman Healthcare** (RYM), and a nil holding in Genesis Energy (GNE). MHJ up 12.2%, largely a continuation of the post trading update rally, where the company displayed resilient performance against the COVID-19 headwinds, with highlights including impressive profit margin expansion, focused cost control, digital growth and strong same store sales. RYM down 14.9%, after reporting their 1H22 result. This revealed underlying profit for the period meaningfully below market estimates, as COVID-19 issues disrupted their unit delivery, at a time the company also faced further cost pressures. GNE down 10.4%, the rate sensitive Utilities sector performed poorly over the month, with GNE weakest of all members of the sector. Not helped by the resignation of two senior members of the business.

The largest negative relative returns were from overweight positions in **Pushpay** (PPH), **Summerset** (SUM) and **Westpac** (WBC). PPH down 28.4%, following a disappointing result. This entailed slower than expected revenue growth, in addition to rising costs associated with the scarcity of supply of skilled workers, in particular IT specialists. Notwithstanding the issues, importantly, the medium-term opportunity remains intact. SUM down 12.5%, caught in the contagion derived from a number of peers (other NZ retirement businesses) having reported disappointing earnings results during the month. A common theme was that of increasing costs - in particular for staff. The performance would also have been influenced by uncertainty regarding the NZ housing market outlook. WBC down 17.9%, having produced a disappointing full year result, driven by a combination of revenue weakness and cost pressure, alongside an underwhelming FY22 outlook. On the positive side, the market remains focused on potential capital management initiatives and the company's participation in Australia's post COVID-19 economic recovery.

The fund participated in capital raisings which added to positions in **Serko** (SKO), **Ingenia** (INA), and **Stride** (SPG). Positions in **Restaurant Brands** (RBD) and **Spark** (SPK) were increased. Positions in **Sydney Airport** (SYD), **Michael Hill** (MHJ), **Z Energy** (ZEL), and ANZ Bank were reduced. (**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	\$69.3m

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

Contact Us www.nikkoam.co.nz | nzenquiries@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.