

Factsheet 31 July 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 had a strong month with all major markets seeing positive returns as data suggested inflation continues to ease around the globe.
- The United States S&P 500 index rose 3.1%, the Australian ASX 200 index lifted 2.9%, the UK FTSE 100 index rose 2.2%, and the MSCI World index ended the month 2.9% higher.
- The S&P/NZX 50 index delivered a positive 1.2% return, albeit underperforming the strong performances in offshore markets.

Fund Highlights

- The fund delivered a +1.2% return over the month, in-line with the index.
- July was relatively quiet ahead of the NZ and Australian earnings season in August, with ~60% of the New Zealand market to report results over the coming month.
- MFT provided a soft Q1 trading update with profit before tax down 43% year-on-year on weaker than expected performances from its Transport and Air & Ocean businesses.
- Overweight positions in Channel Infrastructure and Summerset added value, as well as an underweight (nil holding) in Kathmandu. Overweight positions in Allkem, Infratil, and an underweight position (nil holding) in Argosy detracted from value.

Performance

	One month	Three months	One year	Three years (p.a)	Five years (p.a)	Ten years (p.a)
Wholesale ¹	1.23%	1.34%	8.78%	3.79%	8.41%	13.63%
Benchmark ²	1.20%	0.42%	5.79%	1.66%	7.05%	11.40%
Retail ³	1.15%	1.09%	7.75%			
KiwiSaver ^{3,4}	1.16%	1.12%	7.77%	2.37%	5.79%	

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.

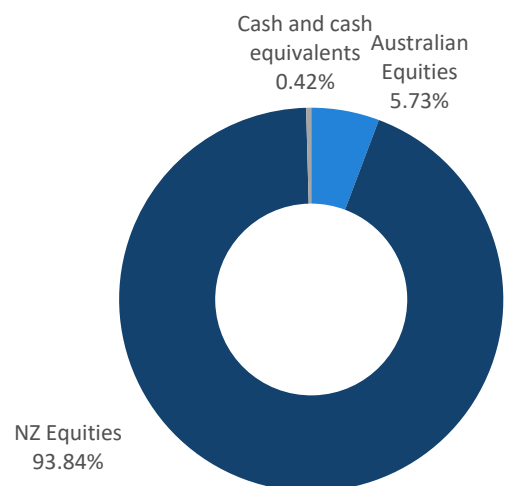
Overview

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 (Month)			
What Helped:		What Hurt:	
Channel Infrastructure	OW	Allkem	OW
Summerset Group	OW	Infratil	OW
Kathmandu	NH	Argosy	NH

OW overweight; UW underweight; NH no holding; RS restricted stock.

Top 10 Holdings (% of fund)			
Fisher & Paykel Healthcare	11.67	EBOS Group	5.46
Spark New Zealand	10.37	Meridian Energy	5.21
Infratil	10.10	Mainfreight	5.00
Auckland Intl. Airport	8.23	The A2 Milk Company	4.38
Contact Energy	8.06	Ryman Healthcare	4.12

Sector Allocation	Fund	Benchmark
Utilities	26.55	23.75
Health care	26.36	23.61
Industrials	17.38	21.98
Communication services	15.75	11.49
Consumer staples	4.38	4.32
Real estate	2.93	8.63
Information technology	1.92	0.69
Consumer discretionary	1.50	2.35
Materials	1.43	0.40
Energy	1.23	0.33
Cash and cash equivalents	0.42	0.00
Financials	0.15	2.45
Number of holdings	31	50

Market Commentary

Global equity markets performed strongly over July as positive US data bolstered hopes of a soft economic landing, despite the United States Federal Reserve raising the fed funds rate 25bp to a 5.25-5.50% range. US inflation continued its downward trend with the Personal Consumption Expenditures (PCE) index slowing to an annual 3% increase in June (from 3.8% in May), and core PCE inflation (which excludes food and energy) also easing to 4.2% (from 4.6% in May). In New Zealand, headline annual inflation of 6.0% was reported for the June quarter, slightly above market expectations of 5.9%. However, non-tradables (domestic) inflation of 6.6% was well ahead of the Reserve Bank of New Zealand's 6.3% expectation, perhaps contributing to the NZ share market's underperformance relative to overseas markets. Post month end, the Reserve Bank of Australia held its policy rate at 4.1% for the second month in a row, in-line with market expectations, but against most economists who expected a hike. The Reserve Bank of Australia stated it wanted more time to assess the impact of previous rate rises.

Fund Commentary

The fund delivered a +1.2% return over the month, in-line with the index. The largest positive contributors to the fund's relative return were overweight positions in **Channel Infrastructure (CHI)**, and **Summerset (SUM)**, as well as a nil holding in Kathmandu (KMD). CHI outperformed after announcing its quarterly operational update, as well as a conditional agreement to sell a portion of its decommissioned assets to a US-based purchaser. Summerset also performed well after announcing its second quarter sales which showed a strong bounce back in total settlements of occupation rights, as well a general improvement in investor sentiment towards the NZ housing market. KMD underperformed following a weak winter trading update which saw company guidance for 2023 well below market expectations, driven by weaker sales and gross margin pressure.

The largest negative contributors to our relative return were from overweight positions in **Allkem (AKE)** and **Infratil (IFT)**, which both gave back gains following strong performances over recent months. A nil holding in Argosy (ARG) also detracted as the broader property sector performed well, despite no specific news-flow.

Key portfolio changes during the month included adding to our position in **Auckland International Airport (AIA)**, **AKE**, **Spark (SPK)**, and **Sky Network TV (SKT)**. Positions were reduced in **IFT**, **Charter Hall Group (CHC)**, **EBOS (EBO)** and **SUM** while the position in Scales (SCL) was divested. (**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: 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>.

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

Buy / Sell spread:	Strategy Launch Date	Strategy size
0.29% / 0.29%	January 2008	\$64.5m

Compliance

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

Contact Us

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