

Factsheet 31 August 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 month 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 1.8%, the Japanese Nikkei 225 declined 1.7%, the UK FTSE 100 index dropped 3.4%, the Australian ASX 200 index lost 0.7% and the MSCI World index ended the month down 2.1%.
- The S&P/NZX 50 index had a tough month ending down 4.2%.

Fund Highlights

- The fund delivered a negative return of -4.1% over the month.
- August was busy with company news flow as results for the period ending June were released.
- Overweight positions in Infratil, Contact Energy and NextDC added value. Overweight positions in Restaurant Brands and Investore, and an underweight (nil holding) in restricted stock SkyCity detracted from value.

Performance

	One month	Three months	One year	Three years (p.a)	Five years (p.a)	Ten years (p.a)
Wholesale ¹	-4.13%	-2.27%	2.87%	1.73%	6.84%	13.08%
Benchmark ²	-4.16%	-2.10%	0.43%	-0.37%	5.22%	10.92%
Retail ³	-4.19%	-2.49%	1.94%			
KiwiSaver ^{3,4}	-4.20%	-2.48%	1.94%	0.46%	4.24%	

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.

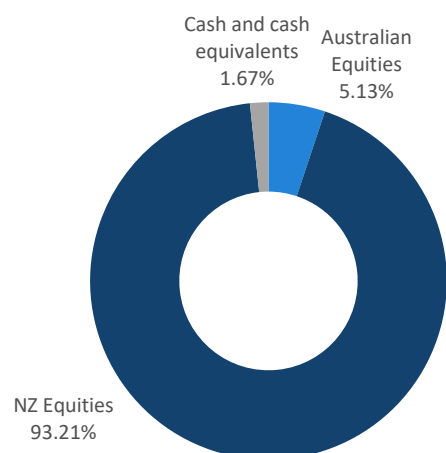
Overview

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:	
Infratil	OW	Restaurant Brands	OW
Contact Energy	OW	Skycity Entertainment	RS
NextDC	OW	Investore Property	OW
OW overweight; UW underweight; NH no holding; RS restricted stock.			
Top 10 Holdings (% of fund)			
Fisher & Paykel Healthcare	11.57	EBOS Group	5.39
Infratil	10.53	Meridian Energy	5.19
Spark New Zealand	10.43	Mainfreight	5.09
Auckland Intl. Airport	8.24	Ryman Healthcare	4.31
Contact Energy	8.15	A2 Milk	3.86

Sector Allocation (% of fund)	Fund	Benchmark
Utilities	26.88	24.32
Health care	26.39	23.50
Industrials	17.30	21.66
Communication services	15.71	11.61
Consumer staples	3.86	4.10
Real estate	2.42	8.41
Information technology	1.99	0.65
Cash and cash equivalents	1.67	0.00
Materials	1.32	0.42
Consumer discretionary	1.29	2.47
Energy	1.19	0.34
Financials	0.00	2.52
Number of holdings	29	50

Market Commentary

Global equity markets struggled over the month 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 has 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. With the New Zealand general election around six weeks away we are getting policy releases from the political parties. One policy that is seems likely to be put in place regardless of who wins is the removal of depreciation for tax purposes from commercial buildings. This has led to the listed property vehicles selling off over August.

Fund Commentary

The fund delivered a negative return of -4.1% over the month.

The largest positive contributors to the funds relative return were overweight positions in **Infratil** (IFT), **Contact Energy** (CEN) and **NextDC** (NXT). At its Annual General Meeting (AGM), IFT advised that they expect earnings to be towards the top of its previous guidance. IFT ended the month up 1.4%. CEN added 0.7% after guiding to good earnings growth in the year ahead while announcing its earnings for the current year. While striking higher than expected capital expenditure expectations, NXT rose 6.2% (in AUD) as the outlook for data centres and signing customer contracts is encouraging.

The largest negative contributors to our relative return were from overweight positions in **Restaurant Brands** (RBD) and **Investore** (IPL), and an underweight (nil holding) in restricted stock SkyCity (SKC). RBD reversed the optimistic outlook delivered at their recent AGM in May, instead warning of ongoing cost pressures and an inability to pass these through to the customer without unduly tarnishing brand loyalty. Rather than chase near-term profit, they have opted to manage the business for enduring long-term value creation. The stock fell 31.1%. The real estate sector underperformed the broader market, within this group IPL performed particularly poorly. The stock fell 16.1%. Restricted stock SKC rose 4.9%.

Key portfolio changes during the month included exiting ANZ (ANZ) and Stride Property (SPG). Adding to our position in **Auckland International Airport** (AIA), **Fisher and Paykel Healthcare** (FPH), and **Sky Network TV** (SKT). Positions were reduced in **Charter Hall Group** (CHC), **Ingenia Group** (INA).

(**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	\$60.2m

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

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