

# Nikko AM SRI Equity Strategy

Monthly Update 31 October 2023

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 dropped over the month as economic data and the Gaza conflict drove bond yields higher.
- The United States S&P 500 index declined 2.2%, the Japanese Nikkei 225 declined 3.1%, the UK FTSE 100 index declined 3.8%, the Australian ASX 200 index declined 3.8% and the MSCI World index ended the month down 2.7% (in local terms).
- The S&P/NZX 50 index had a tough month ending down 4.8%.

## Fund Highlights

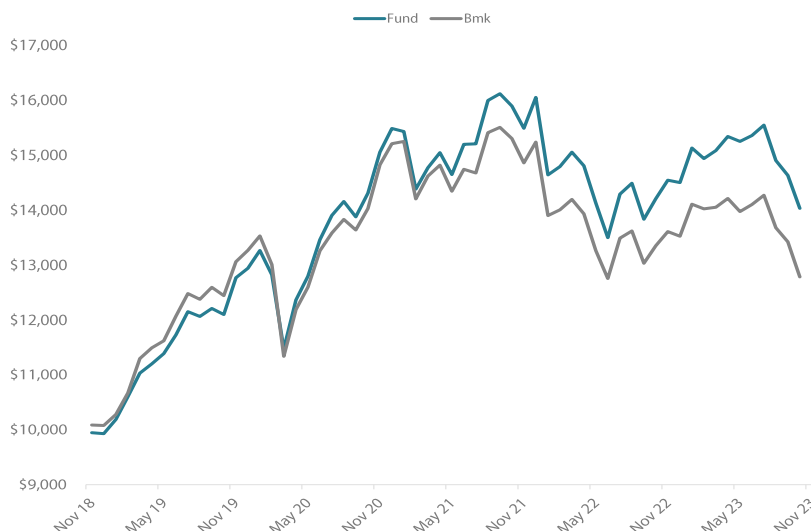
- The fund ended the month down 4.1%, 0.7% ahead of the index return.
- Fletcher Building rebutted accusations from a Western Australian building company that plumbing pipes produced and supplied by Fletcher Building were failing due to manufacturing issues.
- Sky Network Television announced that they have received a highly conditional non-binding indication of interest to acquire the company.
- Overweight positions in Sky Network Television and Spark and an underweight position in Port of Tauranga added value. Overweight positions in Allkem and Ryman Healthcare and an underweight position (nil holding) in Stride Property detracted from value.

## Performance

	One month	Three months	One year	Three years (p.a.)	Five years (p.a.)	Ten years (p.a.)
<b>Wholesale<sup>1</sup></b>	-4.10%	-9.75%	-1.25%	-0.65%	7.01%	11.32%
<b>Benchmark<sup>2</sup></b>	-4.77%	-10.43%	-4.26%	-3.05%	5.03%	9.26%
<b>Retail<sup>3</sup></b>	-4.17%	-9.95%	-2.14%			
<b>KiwiSaver<sup>4</sup></b>	-4.16%	-9.93%	-2.13%	-1.82%	4.47%	

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<sup>1,2</sup>



## Portfolio Manager

**Michael De Cesare,**  
**Portfolio Manager**

Responsible for the SRI Equity Fund. Covers the Consumer Discretionary 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.



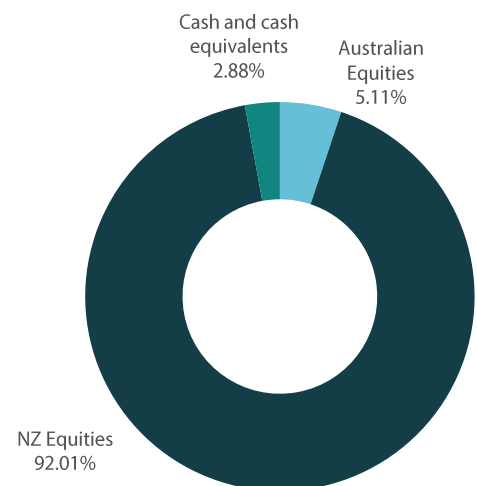
## Overview

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				Sector Allocation (% of fund)		
<b>What Helped:</b>		<b>What Hurt:</b>		Utilities	26.90	24.93
Sky Network TV	OW	Allkem	OW	Health care	25.62	23.07
Spark New Zealand	OW	Stride Property	NH	Communication services	16.85	11.88
Port of Tauranga	UW	Ryman Healthcare	OW	Industrials	16.57	21.82
OW: overweight; UW: underweight; NH: no holdings				Consumer staples	3.08	3.80
<b>Top 10 Holdings (% of fund)</b>				Cash and cash equivalents	2.88	0.00
Spark New Zealand	10.77	EBOS	5.22	Real estate	2.55	8.27
Fisher & Paykel Healthcare	10.76	Meridian Energy	5.16	Information technology	2.16	0.69
Infratil	10.66	Mainfreight	4.45	Energy	1.24	0.33
Auckland International Airport	8.81	Ryman Healthcare	4.21	Materials	1.10	0.47
Contact Energy	7.99	Chorus	3.67	Consumer discretionary	1.05	2.28
				Financials	0.00	2.45
				<b>Number of holdings</b>	<b>29</b>	<b>50</b>

## Market Commentary

Global equity markets dropped over the month as economic data and the Gaza conflict drove bond yields higher. In Australia a higher-than-expected consumer price index and stronger retail sales led the market to start to price in an increase in their cash rate. In the United States a good Gross Domestic Product number was reported while in Europe the European Central Bank left their cash rate unchanged but spoke to rates needing to be high for a prolonged period. All of this, along with a flight to quality and safety due to the Gaza conflict, saw the US 10-year bond end the month at 4.93%, up more than 1% since the start of the year. Similar moves have been seen in the NZ and Australian 10-year rates with them ending the month at 5.55% and 4.92% respectively.

## Fund Commentary

The largest positive contributors to the fund's relative return were overweight positions in **Sky Network Television (SKT)** and **Spark (SPK)** and an underweight position (nil holding) in Port of Tauranga (POT). SKT increased by 16.1%, having announced they received a non-binding indication of interest to acquire the company. SPK increased by 3.3%, on no specific news albeit supported by a share buy-back currently in progress. POT decreased by 13.3%, after a disappointing update which saw guidance below market expectations.

The largest negative contributors to our relative return were from overweight positions in **Allkem (AKE)**, **Ryman Healthcare (RYM)** and an underweight (nil) position in Stride Property (SPG). AKE decreased by 18.9%, despite acceptable operating numbers for the quarter, the stock nevertheless continues to be dragged down by weak lithium prices. RYM decreased by 10.0%, on no specific news. SPG increased by 7.1%, with a strong performance (4.6%) on the last day of the month, again on no specific news.

Key portfolio changes during the month included adding to our position in Ingenia Communities (INA) and Channel Infrastructure (CHI), while reducing positions in Fletcher building (FBU) and Freightways (FRE).

(**Bold** denotes stocks held in the portfolio).

## Key Fund Facts

<b>Estimated annual fund charges (incl. GST)</b>	<b>Foreign Currency Exposure:</b>	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.	<b>Strategy Launch:</b>	January 2008
<b>Wholesale:</b> Negotiated outside of the unit price. <b>Retail:</b> 0.95%, refer to PDS for more details. <b>KiwiSaver:</b> 0.95%, refer to PDS for more details.	<b>Exclusions:</b>	Controversial weapons (including but not limited to cluster munitions and chemical, biological and nuclear weapons).	<b>Strategy size:</b>	\$57.1m
<b>Distributions:</b>	<b>Restrictions:</b>	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 <a href="https://www.nikkoam.co.nz/invest/retail">https://www.nikkoam.co.nz/invest/retail</a> .	<b>Buy / Sell spread:</b>	0.29%/0.29%
<b>Wholesale:</b> Calendar quarter <b>Retail:</b> March and September <b>KiwiSaver:</b> Does not distribute				

## Compliance

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

## Contact Us

[www.nikkoam.co.nz](http://www.nikkoam.co.nz) | [nzenquiries@nikkoam.com](mailto:nzenquiries@nikkoam.com)

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