

Nikko AM SRI Equity Strategy

Monthly Update 30 November 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 had a very strong month as bond yields fell sharply.
- The United States S&P 500 index rose 8.9%, the Japanese Nikkei 225 added 8.5%, the UK FTSE 100 index gained 1.8%, the Australian ASX 200 index increased 5.0% and the MSCI World index ended the month up 7.6% (in local terms).
- The S&P/NZX 50 index ended the month up 5.4%.

Fund Highlights

- The fund ended the month up 4.2%, recovering the prior month's drawdown. Although the month's return was below a very strong index return.
- There were a number of company result announcements and Annual Shareholder Meetings.
- Sky Network Television revealed they had ceased talks with the bidder for the company due to the bid price not being sufficient.
- MSCI index flows on the last day of the month had a material impact on a number of stock prices.
- Underweight positions (nil holdings) in Stride, Kathmandu and restricted stock Sky City added value. Overweight positions in Sky Network Television, Allkem and Infratil detracted value.

Performance

	One month	Three months	One year	Three years (p.a.)	Five years (p.a.)	Ten years (p.a.)
Wholesale¹	4.22%	-1.89%	0.53%	-0.97%	8.01%	12.03%
Benchmark²	5.35%	-1.54%	-1.04%	-3.15%	5.95%	10.08%
Retail³	4.13%	-2.13%	-0.42%			
KiwiSaver⁴	4.12%	-2.11%	-0.40%	-2.21%	5.62%	

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 Communications, 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.



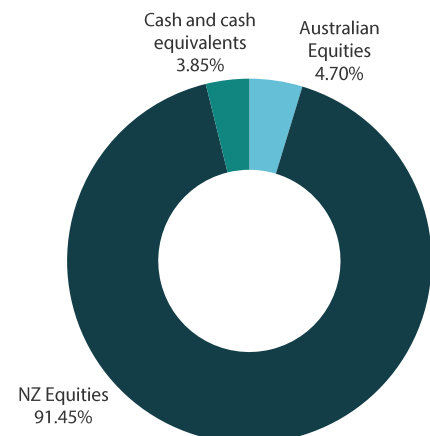
Overview

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			
What Helped:		What Hurt:	
Sky City Entertainment	RS	Sky Network TV	OW
Stride Property	NH	Allkem	OW
KMD Brands	NH	Infratil	OW

OW: overweight; UW: underweight; NH: no holdings; RS: restricted stock

Top 10 Holdings (% of fund)			
Fisher & Pavkel Healthcare	11.62	Meridian Enerav	5.24
Spark New Zealand	10.67	EBOS	4.87
Infratil	10.32	Mainfreight	4.82
Auckland International Airport	9.02	Ryman Healthcare	3.97
Contact Energy	7.74	Summerset	3.84

Sector Allocation (% of fund)	Fund	Benchmark
Utilities	26.31	24.33
Health care	25.87	23.35
Industrials	17.07	22.76
Communication services	16.70	11.83
Cash and cash equivalents	3.85	0.00
Consumer staples	2.81	3.61
Information technology	2.15	0.66
Real estate	2.15	8.15
Enerav	1.23	0.33
Materials	0.94	0.45
Consumer discretionary	0.92	2.14
Financials	0.00	2.40
Number of holdings	28	50

Market Commentary

Global equity markets had a very strong month, recovering October's losses as bond yields fell sharply on signs that rate hikes might be over in the United States. In contrast the Reserve Bank of Australia hiked rates early in November and the Reserve Bank of New Zealand signalled that rate cuts are further out than they had previously signalled. Interest rate moves and expectations continue to dominate the equity market rather than the outlook for earnings. Outside of results and shareholder meetings, EBOS received attention as it went into trading halt for several days due to speculation they were in discussions to buy the Greencross, the vet and pet retail business. The deal did not eventuate, likely due to insufficient support from investors.

Fund Commentary

The largest positive contributors to the fund's relative return were underweight positions (nil holdings) in Stride (SPG), Kathmandu (KMD) and restricted stock Sky City (SKC). SKC decreased by 1.1%. SPG decreased by 4.4%. The company released their first half FY24 result which was broadly in line with expectations, however the stock gave back some of the considerable October rally. KMD decreased by 7.2%. The company held their annual general meeting which lacked the usual trading update yet plan to update the market in December, post the important Black Friday / Cyber Monday sales period. Subsequently, they confirmed the last day of CFO Chris Kinraid will be Friday 8th December, following his resignation in July, as they continue to search for a permanent replacement.

The largest negative contributors to our relative return were from overweight positions in Sky Network Television (SKT), Allkem (AKE) and Infratil (IFT). SKT decreased by 4.2%, having announced no deal regarding the non-binding indication of interest to acquire the company received the prior month. The proposed value fell short of what the company and several large institutional shareholders believe the company is worth. AKE decreased by 9.9%. Underlying commodity prices have been weaker than expected and this has resulted in broad based pressure on those involved in lithium battery production. The company is progressing its merger with U.S. based Livent. IFT decreased by 0.1%. IFT delivered their first half FY24 result, demonstrating robust operating performance across their portfolio companies and lifted their mid-point ebitda guidance for FY24. The share price was flat over the month against a strong market, occurring after a period of sustained outperformance.

Key portfolio changes during the month included exiting Charter Hall Group (CHC), an increase to the Summerset (SUM) position and a reduction to Restaurant Brands (RBD) and Freightways (FRW).

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

Key Fund Facts

Estimated annual fund charges (incl. GST)	Foreign Currency Exposure: 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.	Strategy Launch: January 2008
Wholesale: Negotiated outside of the unit price. Retail: 0.95%, refer to PDS for more details. KiwiSaver: 0.95%, refer PDS for more details.	Exclusions: Controversial weapons (including but not limited to cluster munitions and chemical, biological and nuclear weapons).	Strategy size: \$59.8m
Distributions:	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 .	Buy / Sell spread: 0.29%/0.29%
Wholesale: Calendar quarter Retail: March and September KiwiSaver: Does not distribute		

Compliance

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

Contact Us

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