

Factsheet 31 October 2018

# NIKKO AM GLOBAL EQUITY UNHEDGED STRATEGY

Applies to: Nikko AM Wholesale Global Equity Unhedged Fund and Nikko AM Global Equity Unhedged Fund (retail)

## Market Overview

- Global Equities fell in October as attempts by the US to re-draw global trade in their favour shook exporters across Asia and Europe.
- Concerns over the impact of tighter US monetary policy are not new but had been offset by confidence regarding the beneficial impact of a booming US economy and a surge in corporate profits.
- Trade fears were also exacerbated in October by hawkish speeches from US Treasury Secretary Mnuchin and President Trump regarding China.

## Fund Highlights

- The Fund returned -7.91% over the month of October underperforming the benchmark by 1.83%.
- Davis Advisors, PGI and WCM trailed the benchmark with Amazon. Weak revenue growth guidance was partly to blame for Amazon's sell-off and this short-term concern more than offset a huge increase in profit margins.
- Transition commenced this month to remove Principal Global Investors and Epoch and introduce Royal London.

## Performance

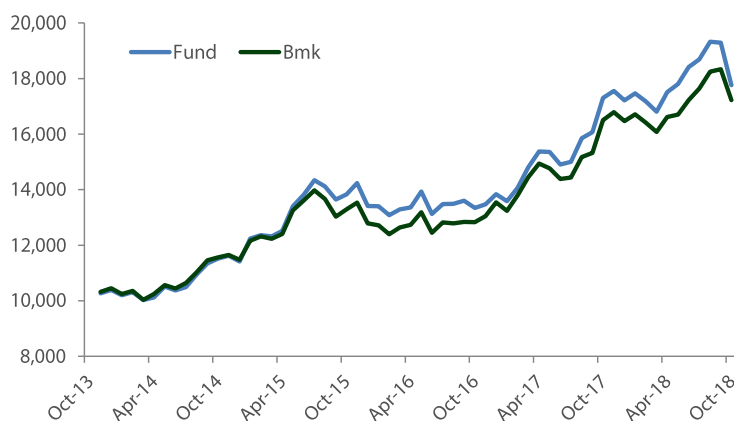
	One month	Three months	One year	Three years (p.a)	Five years (p.a)	Ten years (p.a)
Wholesale <sup>1</sup>	-7.91%	-4.95%	2.65%	8.70%	12.18%	
Benchmark <sup>2</sup>	-6.08%	-2.37%	4.37%	9.03%	11.49%	
Retail <sup>3</sup>	-9.93%	-6.57%	0.18%	6.52%	10.15%	

1. Returns are before tax and before the deduction of fees

2. Benchmark: MSCI All Countries World Index (net dividends reinvested), in NZD terms. No tax or fees.

3. Returns are before tax and after the deduction of fees and expenses and including tax credits (if any)

## Five Year Cumulative Performance (gross)<sup>1</sup>



## Investment Manager

The multi-manager global equity strategy is managed by Nikko AM's multi-strategy team based across Sydney and Singapore. This team provides advice and input to the Nikko AM NZ Investment Committee which is responsible for the ongoing selection, monitoring and review of the underlying investment managers. The Nikko AM NZ Investment Committee comprises senior members from the business and is chaired by the Managing Director, George Carter.

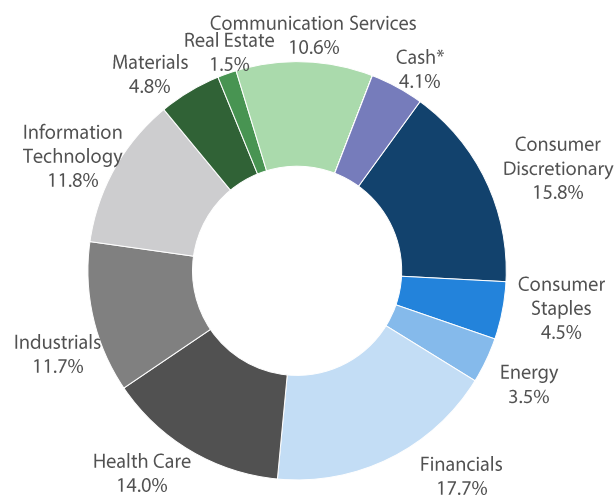
## Overview

This fund aims to provide investors with long term growth from an actively managed investment portfolio selected from global equity markets. Currency exposures created as a consequence of global equity investment are unhedged.

## 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



Top 10 Holdings	Fund	MSCI	Country
Amazon.com	4.18%	1.66%	US
Alphabet, Class C	2.98%	0.79%	US
Wells Fargo & Co	2.33%	0.55%	US
Alibaba Group	2.24%	0.38%	China
Facebook	1.89%	0.83%	US
Visa	1.86%	0.57%	US
New Oriental Education	1.81%	0.02%	China
Costco Wholesale	1.72%	0.22%	US
Naspers	1.70%	0.19%	South Africa
JD.Com	1.63%	0.04%	China

Manager	Allocation	Active Return
Davis Advisors	29.73%	-4.80%
Epoch	0.03%	n/a*
Principal Global Investors	0.02%	n/a *
WCM	34.29%	-1.39%
Transition Account*	35.09%	n/a *

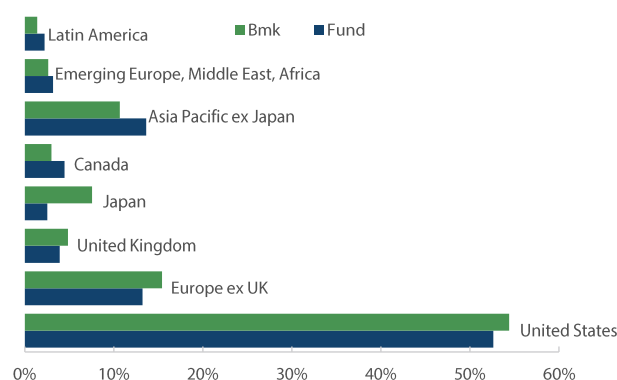
What helped	What Hurt
Wells Fargo	OW Amazon.com OW
Sul America	OW New Oriental Education OW
Verisk Analytics	OW Ferguson plc OW

OW: overweight; UW: underweight; NH: no holding – month end position  
 \*Active return of the month not available as returns are for partial periods due to manager transition.

## Market Commentary

Global Equities fell in October as attempts by the US to re-draw global trade in their favour shook exporters across Asia and Europe. Fears also intensified regarding the impact of quantitative tightening in the US. The MSCI All Countries World Index dropped 6.08% (NZD, unhedged) for its worst monthly performance since June 2016 when it fell 5.58%. The concerns over the impact of tighter US monetary policy are not new but had been offset by confidence regarding the beneficial impact of a booming US economy and a surge in corporate profits. Although both of these supports remain broadly in place for now, tentative signs have emerged which suggest that we are near their peak. For instance, quarterly results from traditional bellwethers like Caterpillar, 3M and General Electric all failed to deliver meaningful positive surprises. Trade fears were also exacerbated in October by hawkish speeches from US Treasury Secretary Mnuchin and President Trump regarding China. The political stakes remain high after the recent Midterm elections in the US and ahead of a G20 Summit at the end of November.

## Geographical Allocation



## Fund Commentary

The Fund returned -7.91% in October. Davis was the major reason for the significant underperformance, with its stocks dominating the main detractors from performance at the aggregate Fund level. PGI and WCM also trailed the benchmark with Amazon. Weak revenue growth guidance was partly to blame for Amazon's sell-off, and this short-term concern more than offset a huge increase in profit margins, which speaks to the underlying strength of the business model. Epoch bucked the negative trend, generating its largest monthly excess return since June 2016. In October, Epoch's overweight to the defensive Utilities sector contributed about one third to their outperformance. Value was also added by stock selection in the Communication Services and Healthcare sectors through names such as Verizon and Novartis. Not holding Amazon was another positive contributor to Epoch's outperformance. We are aware that the growth style and technology leadership in particular have been strong tailwinds for the Fund over most of the last 10 years. Furthermore, valuation multiples in the Technology sector are quite elevated relative to history and investor positioning crowded. All of this was fuelled in part by unprecedented monetary policy in the form of ultra-low or negative benchmark interest rates and major central bank asset purchases since the Financial Crisis. However, after a decade in which returns in growth stocks have run rampant over those of asset-heavy, stable earners and cyclical industrials, it could be time for a breather in growth and a rebound in value. The US Federal Reserve has now hiked its key interest rate eight times since December 2015 and higher rates may cause a headwind for many growth companies. Following the decision to remove PGI and Epoch and introduce Royal London this transition formally commenced in October and is expected to be completed in mid-November.

## Key Fund Facts

### Distributions

Generally does not distribute

### Hedging

Any foreign currency exposure is unhedged.

### Estimated annual fund charges

Wholesale: negotiated outside of the unit price

Retail: 1.36%, refer PDS for more details

<b>Buy / Sell spread:</b>	<b>Strategy Launch</b>	<b>Strategy size</b>
0.07% / 0.07%	October 2008	\$277.75m

## Compliance

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

## Contact Us

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