

Factsheet 31 December 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

- The MSCI All Countries World Index fell by 13.74% (NZD, unhedged) over the fourth quarter, wiping out the 11% gain made over the first nine months of 2018.
- The threats around the trade war, a slowing Chinese economy in the face of tighter liquidity, and the current political environment in Europe, did little to support markets.
- The ongoing tension with the US over the terms of future trade between the world's largest two economies is likely to exacerbate the current conditions.

Fund Highlights

- The Fund returned -15.40% over the quarter underperforming benchmark by 1.66%.
- Davis was the main cause of the underperformance. Royal London was appointed in mid-November. December was Royal London's first full month, and they outperformed the benchmark by 1.10%.

Performance

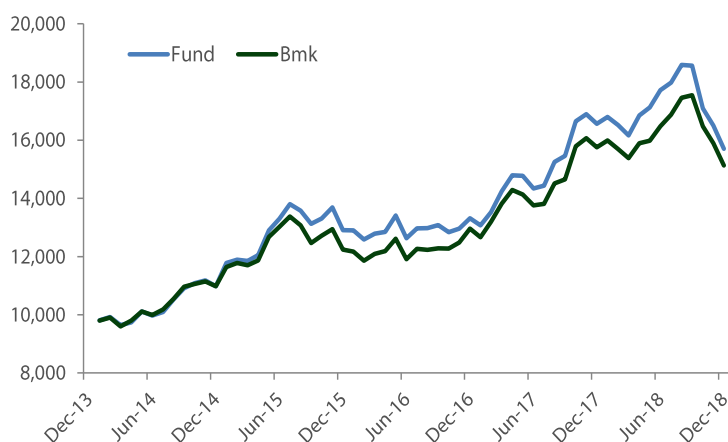
	One month	Three months	One year	Three years (p.a)	Five years (p.a)	Ten years (p.a)
Wholesale ¹	-4.85%	-15.40%	-5.21%	6.75%	9.44%	
Benchmark ²	-4.78%	-13.74%	-3.93%	7.34%	8.64%	
Retail ³	-5.15%	-16.11%	-6.91%	5.29%	8.07%	

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)¹



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.

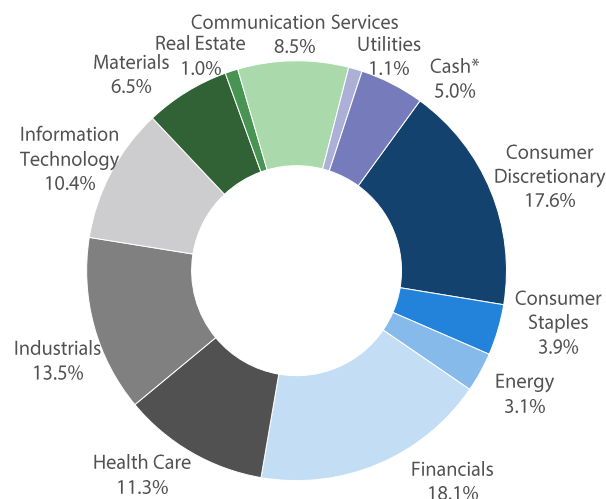
Overview

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	3.53%	1.53%	US
Berkshire Hathaway	2.78%	0.65%	US
Wells Fargo	2.39%	0.52%	US
Alphabet, Class c	2.25%	0.80%	US
Taiwan Semiconductor	1.71%	0.00%	Taiwan
Alibaba Group Holding	1.67%	0.44%	China
Naspers Ltd	1.54%	0.22%	South Africa
Suncor Energy	1.53%	0.11%	Canada
New Oriental Education	1.47%	0.02%	China
Raytheon	1.42%	0.10%	US

Manager	Allocation	Active Return
Davis Advisors	27.64%	-1.61%
Royal London	35.80%	1.17%
WCM	35.18%	0.07%
Transition Account*	1.30%	n/a *

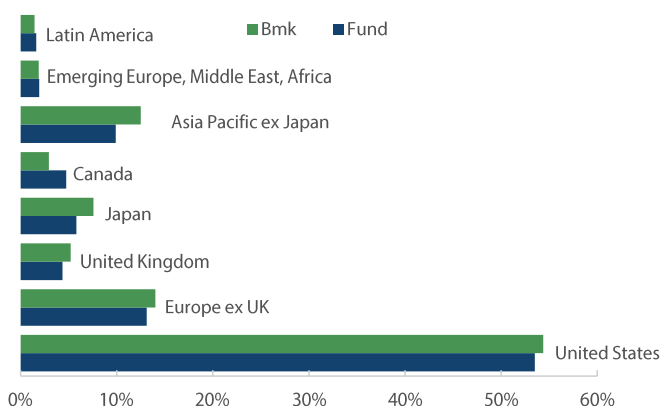
What helped	What Hurt
Apple	UW Adient plc OW
HDFC Bank	OW Apache OW
Sul America	OW Encana OW

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

The MSCI All Countries World Index fell by 13.74% (NZD, unhedged) over the fourth quarter, wiping out the 11% gain made over the first nine months of 2018. The main driver was the concerns that the US Federal Reserve would tighten monetary policy enough to cause a material slowdown in growth in the world's largest economy. These concerns were amplified by weak mortgage applications data and construction spending over the month. The threats around the trade war, a slowing Chinese economy in the face of tighter liquidity, together with the current political environment in Europe, did little to support markets. China's economic slowdown persisted last month and the Government's control over the economy has come into question again. The property market has cooled and manufacturing surveys (the PMI) are now below the 50 mark (signifying contraction) as the Central Government continues its squeeze on shadow lending. The ongoing tension with the US over the terms of future trade between the world's largest two economies is likely to exacerbate the current conditions. This slowdown in China and fears over US protectionism have also hurt business confidence in the Eurozone. With consumer confidence dented by ongoing political uncertainty it is not surprising that the ECB has been unable to normalise monetary policy to the same extent as the Federal Reserve. Bond yields fell sharply across the region in December, reflecting this lack of confidence, with Germany's 10-year bonds yielding 0.24% at month end.

Geographical Allocation



Fund Commentary

The Fund returned -15.40% over the fourth quarter to trail the benchmark by 1.66%. Davis was the main cause of the underperformance. December was Royal London's first full month, and they outperformed the benchmark by 1.10%. The unusually poor performance of Davis has now extended to a sixth straight month. During the first half of 2018, Davis added significant value of 3.65% over the benchmark return. But during the second half of 2018, they were hit hard by very strong macro headwinds from the US/China trade conflict, as well as a few stock specific issues. Among the few positives were the Fund's 3.9% cash weight in a falling market, as well as underweight exposures to the struggling Energy and Information Technology sectors. Nil exposure to Apple, which fell 30%, was the largest individual contributor to performance, followed by overweight's to HDFC Bank, Sul America and Maeda Road Construction Co. The largest detractors from performance in Q4 were Adient plc, Apache, Encana and New Oriental Education.

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

Buy / Sell spread:	Strategy Launch	Strategy size
0.07% / 0.07%	October 2008	\$268.23m

Compliance

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

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