

Factsheet 31 March 2019

# NIKKO AM GLOBAL EQUITY HEDGED STRATEGY

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

## Market Overview

- Global markets posted strong return over the quarter. The main driver for the outperformance was investors growing increasingly confident that the US rates had peaked and that global trade conflicts were likely to ease. With such a strong start to the year, it naturally leads investors to question whether further gains are likely.

## Fund Highlights

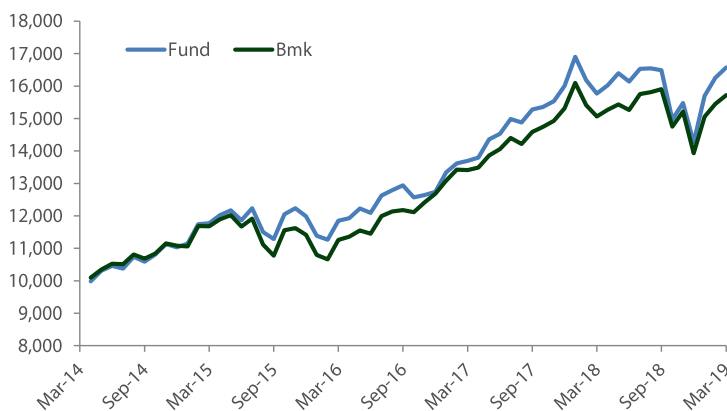
- The Fund gained 16.20% (hedged) over the quarter to outperform the benchmark by 3.39%.
- At the fund level, stock selection added value in every sector, except Financials, where Berkshire Hathaway was a significant detractor. Stock selection in the Consumer Discretionary sector added the most value, Chinese holdings in particular posting very large gains.

## Performance

	One month	Three months	One year	Three years (p.a)	Five years (p.a)	Ten years (p.a)
Wholesale <sup>1</sup>	2.00%	16.20%	5.12%	11.84%	10.64%	
Benchmark <sup>2</sup>	1.73%	12.81%	4.33%	11.77%	9.47%	
Retail <sup>3</sup>	0.59%	15.20%	4.00%	10.09%	9.05%	

1. Returns are before tax and before the deduction of fees. Based on actual calendar periods.
2. Benchmark: MSCI All Countries World Index (net dividends reinvested) 139% gross hedged to NZD. No tax or fees.
3. Returns are before tax and after the deduction of fees and expenses and including tax credits (if any). Based on change in unit price.

## 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.

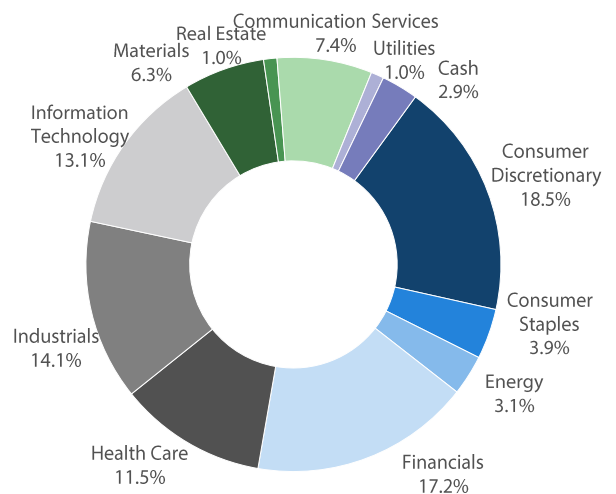
## Overview

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 gross hedged at 139% to NZD.

## 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
Berkshire Hathaway	2.64%	0.58%	US
Amazon.com	2.46%	1.64%	US
Visa Inc	2.22%	0.61%	US
Wells Fargo	2.19%	0.48%	US
New Oriental Education	1.92%	0.03%	China
Taiwan Semiconductor	1.70%	0.00%	Taiwan
Alphabet Class C	1.68%	0.82%	US
Suncor Energy	1.62%	0.12%	Canada
Raytheon Co	1.56%	0.11%	US
Alibaba Group Holding	1.50%	0.52%	China

Manager	Allocation (month)	Active Return (month)
Davis Advisors	25.63%	4.69%
Royal London	36.46%	-0.73%
WCM	36.68%	5.68%
Cash and Derivatives	1.23%	n/a

What helped	What Hurt	
New Oriental Education	OW	Berkshire Hathaway OW
Mercadolibre	OW	Ferguson plc OW
Shopify	OW	Maeda Road Construction OW

OW: overweight; UW: underweight; NH: no holding – month end position

## Market Commentary

Global markets recorded strong returns over the quarter, with global equities rising by 10.29%, offsetting the losses for Q4 2018. The main driver was investors growing increasingly confident that the US rates had peaked and that global trade conflicts were likely to ease. With such a strong start to the year, it naturally leads investors to question whether further gains are likely. The debate is even more evident when one considers the continued wealth of negative revisions – German PMI, earnings downgrades, etc. - and the inversion of US rates which occurred after the last Fed meeting towards the end of March. As economic data has continued to soften over the month, renewed monetary dovishness is widespread. Monetary stimulus is increasing in China and the European Central Bank is once again emphasising the downside risks to economic growth and talking of renewed support for the region’s beleaguered banking sector. At the time of writing, a resolution to the trade war between China and the USA remains uncertain. However, markets appear to be pricing a benign outcome as a number of more cyclical stocks have bottomed out, or even starting to perform. An acceleration in growth in the second half of 2019 is currently being debated. The inversion of the US yield curve has led the US banking sector to underperform in a meaningful way and investors have sought safety in defensive stocks such as those in the Utilities sector. We have limited exposure to these sectors but they do provide informational value such as investor’s appetite for risk.

## Fund Commentary (all return percentages expressed as unhedged NZD unless otherwise stated)

The fund gained 16.20% (hedged) over the quarter to outperform the benchmark by 3.39%. Davis (14.98%) and WCM (15.97%) both outperformed by very significant margins, while Royal London (9.56%) lagged the benchmark. At the fund level, stock selection added value in every sector, except Financials, where Berkshire Hathaway was a significant detractor. Stock selection in the Consumer Discretionary sector added the most value, with Chinese holdings in particular posting very large gains. Davis finally bounced back after a disappointing half of 2018. Most of the headwinds they faced last year, turned into strong tailwinds this quarter, most notably their Chinese stocks. Among their largest exposures, New Oriental (up 64%), Alibaba (up 33%), JD.com (up 44%), and iQiyi (up 61%) contributed the most to their strong relative performance. Facebook (up 26%) also continued to claw back its losses from late-2018. WCM remains extremely impressive, outperforming in rising markets while providing extraordinary downside protection in falling markets. In Q1, their best stock picks were in the Healthcare, Consumer Discretionary and Information Technology sectors. Among their top contributors were Mettler-Toledo and Stryker, both gaining 25% over the quarter, while the best performer was the South American online retailer, Mercadolibre, which surged 72%. Royal London (-73 bps) had their first full quarter since their appointment in mid-November 2018. We don’t expect them to outperform in a strong market environment such as we’ve experienced in Q1, and therefore it was no surprise to see them underperform by 73 bps last quarter. Their main detractors from performance were underweights to the Real Estate and Information Technology sectors, which both happened to be the best performing sectors over the quarter.

## Key Facts

### Distributions

Generally does not distribute

### Hedging

Any foreign currency exposure is gross hedged at 139% to NZD. The permitted operational hedging range is 134% to 144%.

### Estimated annual fund charges (Incl GST)

Wholesale: negotiated outside of the unit price

Retail: 1.38%, refer PDS for more details

Buy / Sell spread:	Strategy Launch	Strategy size
0.07% / 0.07%	October 2008	\$119.22m

## Compliance

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

## Contact Us

www.nikkoam.co.nz | nzenquiries@nikkoam.com

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## Geographical Allocation

