

NIKKO AM GLOBAL SHARES HEDGED STRATEGY

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

Market Overview

- Markets paused for breath in July after a strong start to the year. Although the US Federal Reserve delivered the expected rate cut at the end of the month, and quarterly reports have generally been reasonable, grounds for concern remained.
- At a sector level, this month's best performers were Information Technology and Communication Services. Communication Services benefitted from better than expected quarterly reports from index heavyweights Facebook and Google.

Fund Highlights

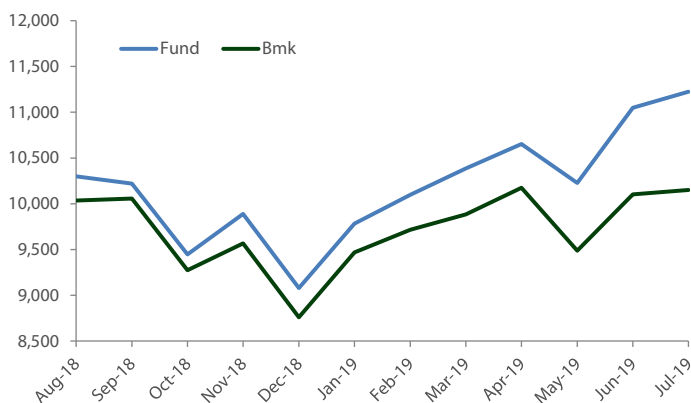
- The portfolio outperformed the index by 1.09% in July, rising 1.58% on a gross of fee basis over the month – compared with the MSCI ACWI's rise of 0.49%.
- TransUnion, Philips and Sony made the greatest positive contribution to performance.
- HDFC, Hexagon and Johnson Matthey made the greatest negative contribution to performance.

Performance

	One month	Three months	One year	Three years (p.a)	Five years (p.a)	Ten years (p.a)
Wholesale ¹	1.58%	5.37%				
Benchmark ²	0.49%	-0.23%				
Retail ³	2.72%					

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

Since Inception Cumulative Performance (gross), \$10,000 invested.^{1,2}



Investment Manager

The Global Shares Strategy is managed by Nikko AM's Global Equity team which is based in Edinburgh, Scotland. With over 20 years average experience, team members have dual roles of portfolio manager and analyst responsibility and work together on an equal basis to construct client portfolios. This flat investment structure and investment process has been in place since the team's foundation.

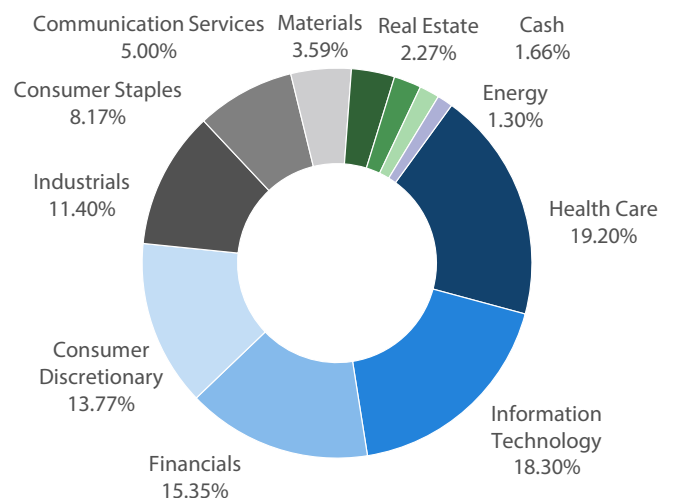
Overview

The fund provides investors with a relatively concentrated actively managed portfolio of global equities to achieve long term capital growth with currency exposure created as a consequence of global equity investment hedged to NZD.

Objective

The fund aims to outperform the benchmark, gross hedged 139% to NZD return by 3% per annum before fees, expenses and taxes over a rolling three year period.

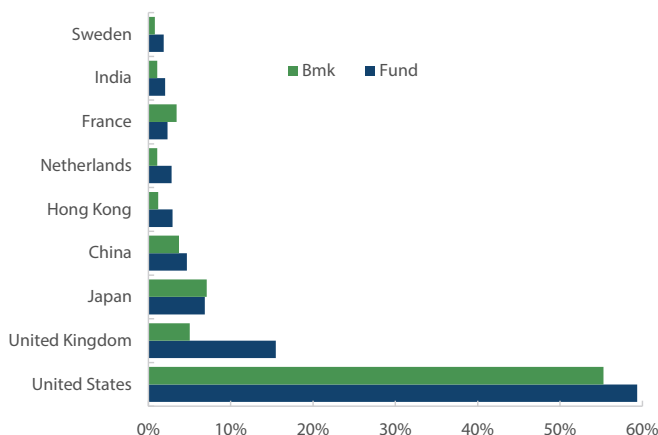
Asset Allocation



Top 10 Holdings

	Fund	MSCI	Country
Microsoft Corporation	4.89%	2.12%	US
Progressive Corporation	4.21%	0.10%	US
Amazon.com, Inc.	3.98%	1.66%	US
TransUnion	3.74%	0.03%	US
Unilever PLC	3.29%	0.14%	UK
LHC Group, Inc.	3.10%	0.00%	US
Anthem, Inc.	3.03%	0.16%	US
AIA Group Limited	2.94%	0.27%	HK
Accenture Plc Class A	2.87%	0.26%	US
Koninklijke Philips N.V.	2.82%	0.09%	NL

Geographical Allocation



Market Commentary

Markets paused for breath in July after a strong start to the year. Although the US Federal Reserve delivered the expected rate cut at the end of the month and quarterly reports have generally been reasonable, grounds for concern remained. Foremost among these remains the ongoing trade spat between the US and China. This month saw little concrete progress on that front. Industrial confidence indicators have continued to drift lower, particularly in Europe. Germany’s IFO Business Expectations survey has continued to fall and June’s reading saw the index at levels not seen since the European debt crisis in 2012. The UK’s Conservative Party has elected Boris Johnson as its new leader and Prime Minister, heightening fears over a ‘hard Brexit’. Spain’s caretaker Prime Minister still cannot form an effective Government and Italy’s ruling coalition continues to be fractious. The US economy remains in relatively good shape, with high employment, good wage increases and strong consumer confidence. This relative firmness has also shown up in currency markets, with the USD well supported throughout July. At a sector level, the best performers were Information Technology and Communication Services. Communication Services benefitted from better than expected quarterly reports from index heavyweights Facebook and Google. This was partly true for Information Technology too, where Microsoft and Apple reported strong numbers. The worst performing sectors over the month were Materials and Energy. Oil prices have been very volatile this month. They received support from news of Iran impounding tankers in the Straits of Hormuz but this optimism faded as fears grew over the state of US / Chinese relations. Industrial metal prices have also struggled to make much ground in recent months against this backdrop of uncertainty. Trade fears shaped regional returns too. Hong Kong / Singapore was the worst performer (not helped by social unrest). Emerging Markets – Asia, Europe ex UK and the United Kingdom all also underperformed meaningfully this month.

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

The portfolio outperformed the index by 1.09% in July, rising 1.58% on a gross of fee basis over the month – compared with the MSCI AC World’s rise of 0.49% (in NZD terms, hedged). Positive contributors to performance included **TransUnion** benefitted from quarterly numbers that showed a marked acceleration in organic growth at its US Information Services business. **Philips** responded well to numbers that showed continued strong momentum in their Diagnosis & Treatment business and a welcome acceleration in growth at their Personal Health unit. **Sony** reported much better than expected quarterly profits this month, thanks to very good cost control and strong growth in their smartphone sensor business. This more than offset the expected drop in profits from their gaming business. Negatives in the portfolio included **HDfC** fell after announcing an increase in bad debt provisions with its latest results. Credit quality concerns have been rising in India in recent months and risks continue to look particularly high in the agricultural sector. **Hexagon** had a difficult month, experiencing a slowdown in their electronics business in China, where uncertainty over global trade wars has caused a sharp fall in demand. **Johnson Matthey** was weak after their Q1 trading update. Profit expectations for their biggest business (auto catalysts) were trimmed as a result of soft global auto production rates and delayed emissions regulations in China, at the same time as JMAT continue to invest in capacity needed for long-term growth.

Key Fund Facts

Distributions

Generally does not distribute
Any foreign currency exposure is gross hedged at 139% to NZD. The permitted operational hedging range is 134% to 144%.

Exclusions and restrictions

Securities that conduct activities listed on the Schedule to Cluster Munitions Prohibition Act 2009. Tobacco manufacturers, adult entertainment, gambling, fossil fuels, alcohol stocks.

Estimated annual fund charges

Wholesale: negotiated outside of the unit price
Retail 1.22%, refer to PDS for more details

Buy / Sell spread:	Strategy Launch	Strategy size
0.07%/0.07%	July 2018	\$76.2m

Compliance

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

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