

# 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 continued to trade lower in August as political wrangling gradually undermined investor confidence and global economic data softened.
- At a sector level, this month's best performers were all traditional defensives, with Utilities, Real Estate, Consumer Staples and Healthcare all outperforming. High starting valuations were typically ignored as investors appeared willing to buy relative safety at any price.

## Fund Highlights

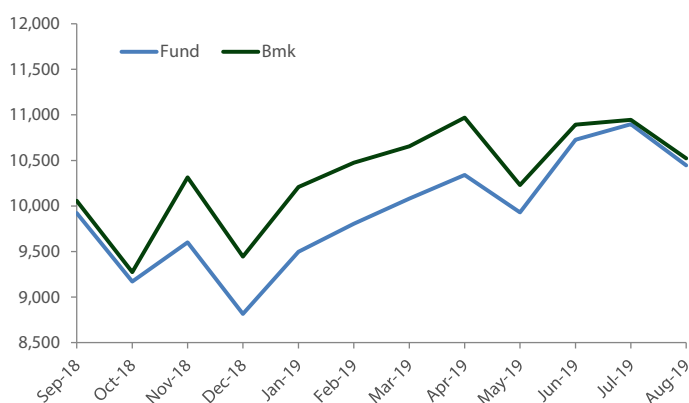
- The portfolio modestly underperformed the index for the month.
- Li Ning, Estee Lauder and Unilever made the greatest positive contribution to performance.
- Burford Capital, Prudential and SVB Financial made the greatest negative contribution to performance.

## Performance

	One month	Three months	One year	Three years (p.a)	Five years (p.a)	Ten years (p.a)
Wholesale <sup>1</sup>	-4.13%	5.20%				
Benchmark <sup>2</sup>	-3.85%	2.88%				
Retail <sup>3</sup>	-5.08%	3.89%				

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.<sup>1,2</sup>



## 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.

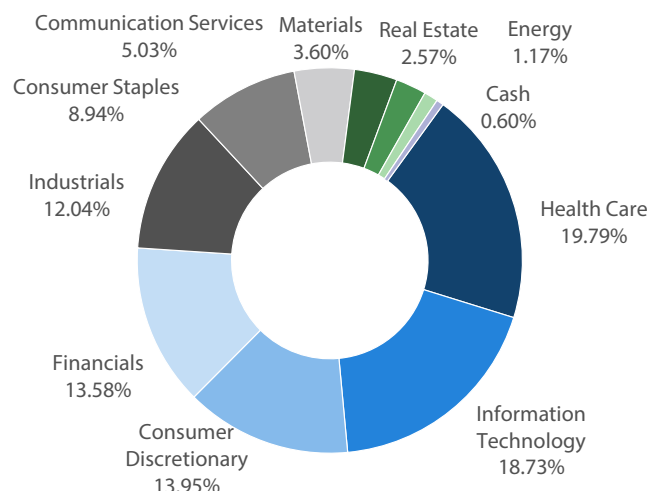
## Overview

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.

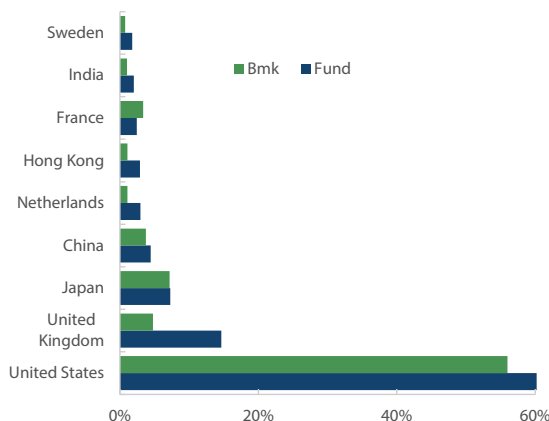
## Asset Allocation



### Top 10 Holdings

	Fund	MSCI	Country
Microsoft Corporation	5.17%	2.19%	US
Progressive Corporation	4.12%	0.10%	US
Amazon.com, Inc.	3.96%	1.63%	US
TransUnion	3.95%	0.03%	US
Unilever PLC	3.59%	0.15%	UK
Accenture Plc Class A	3.09%	0.28%	US
LHC Group, Inc.	3.03%	0.00%	US
Nintendo Co., Ltd.	2.97%	0.09%	JP
Koninklijke Philips N.V.	2.94%	0.10%	NL
AIA Group Limited	2.89%	0.26%	HK

### Geographical Allocation



### Market Commentary

Markets continued to trade lower in August as political wrangling gradually undermined investor confidence and global economic data softened. This was particularly marked at the start of the month as the trade war between China and the US heated up again. By the end of the month, however, markets appeared to be suggesting that the political news was so bad that it could not actually get any worse and hence markets stabilised. The US yield curve finally inverted in August after threatening to do so for some time, with yields on 10-year Treasuries undershooting those on shorter term debt. Although this has proven to be an accurate harbinger of US recessions in the past, there are significant differences between present economic conditions and past occasions. These are generally strong employment markets and low and falling interest rates. It is clear that economic data is deteriorating, even in the strongest parts of the global economy – namely the US. The worsening of economic conditions in the US’s trading partners started earlier and has not shown much sign of improvement in recent times. In China, industrial production, retail sales and bank loan origination all undershot expectations last month. In China’s case, these readings arguably represented a necessary slowdown from unsustainable levels. It is harder to take such a positive view on developments in Europe. Sector-wise, this month’s best performers were all traditional defensives, with Utilities, Real Estate, Consumer Staples and Healthcare all outperforming. High starting valuations were typically ignored as investors appeared willing to buy relative safety at any price. The worst performing sectors this month were Energy and Financials. Materials also underperformed. Trade fears shaped regional returns too. Hong Kong / Singapore was amongst the worst performers in August (not helped by continued social unrest). The UK also underperformed this month due to continuing uncertainties over Brexit.

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

The portfolio underperformed the index by -0.28% in August, returning -4.13% on a gross of fee basis over the month compared with the MSCI AC World’s at -3.85% (in NZD terms). Holdings with a notable impact on returns included the following: Li Ning continued its exceptional performance in August as the company released another strong trading update. Estee Lauder outperformed as fears over a slowdown in China / Hong Kong failed to materialise in its latest quarterly report. Instead, sales in Asia Pacific grew 25%, more than offsetting some softness in the Americas. Unilever, American Tower & Verisk Analytics benefitted from an increased bid for relatively safe visible growth, given the increased uncertainty over global growth. There was little stock specific news that drove the outperformance in each case. Negative performers for the fund included Burford Capital suffered after a report by a short seller was released, criticising Burford’s approach to calculating returns and questioning their solvency. Prudential & SVB Financial have been weak on deteriorating sentiment towards financials, as yield curves continued to flatten, driven by fears over the strength of economic growth globally. Anthem was weak as US equity indices fell. President Trump has effectively made the S&P 500 a barometer for how well his government is faring. With the US / China trade war rhetoric heating up again, markets fell and Democratic polling improved. Some of the Democratic presidential candidates continue to champion ‘Medicare for All’ which would significantly disadvantage Anthem’s commercial insurance business.

### 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	\$69.5m

### Compliance

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

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