NIKKO AM GLOBAL SHARES HEDGED STRATEGY

Factsheet 30 September 2019

Assets are held in the Nikko AM NZ Wholesale Global Shares Hedged Fund. The Nikko AM Global Shares Hedged Fund (retail) invest in units in the wholesale fund, which the commentary refers to.

Market Overview

- Global equity indices have continued to struggle to make any ground in Q3, exiting September exactly where they were at the end of June. Uncertainty regarding the eventual outcome of global trade talks has plagued markets. Regional issues like the initiation of impeachment proceedings against President Trump, Brexit or the ongoing unrest in Hong Kong have done little to help.
- Most of this quarter's best performing sectors were those that traditionally offer more defensive growth – Utilities, Consumer Staples and Real Estate. The worst performers were, by contrast, all cyclicals. Energy was particularly weak despite the intra-quarter spike in oil prices, Materials also underperformed on renewed fears over global economic growth. Healthcare underperformed in Q3 as noise on potential reforms heated up, ahead of next year's US Presidential election.

Fund Highlights

- The portfolio underperformed its benchmark this quarter.
- Li Ning, Transunion and Rentokil made the greatest positive contribution to performance over the quarter.
- Burford Capital, Anthem, AIA & Prudential 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]	0.01%	-2.60%				
Benchmark[2]	2.02%	-1.43%				
Retail[3]	-0.22%	-2.71%				

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

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.

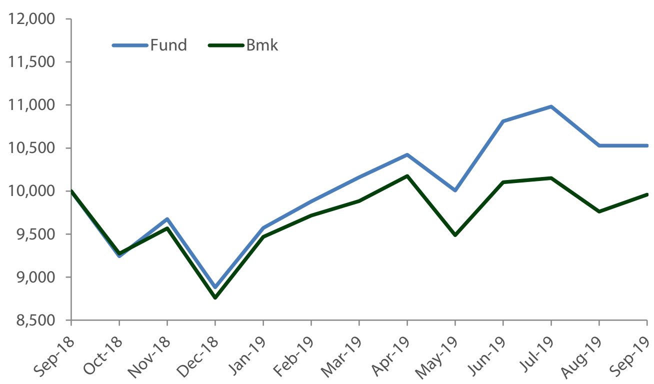
Overview

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.

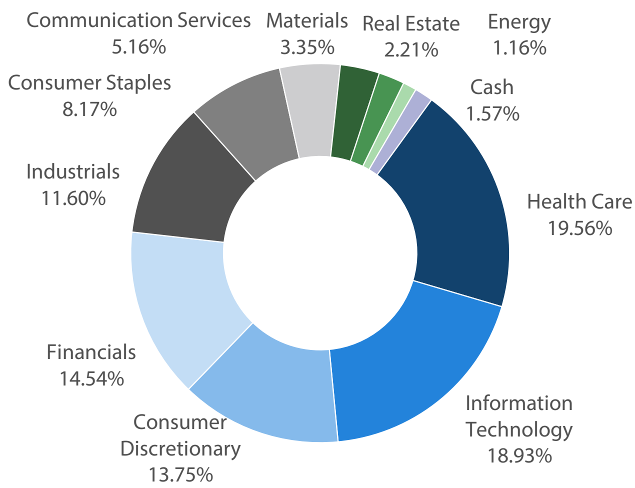
Objective

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.

Since Inception Cumulative Performance (gross), $10,000 invested.[1,2]



Asset Allocation

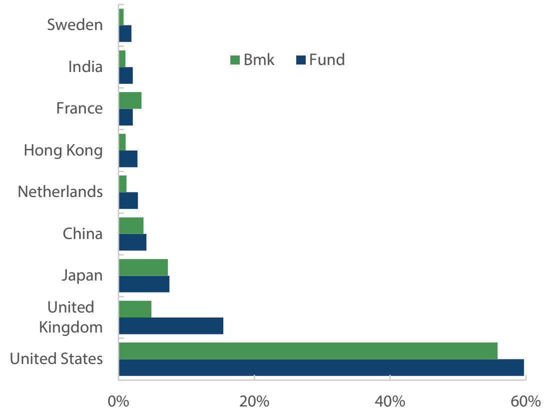


nikko am
Nikko Asset Management

Top 10 Holdings

	Fund	MSCI	Country
Microsoft Corporation	5.15	2.17	US
Progressive Corporation	4.15	0.10	US
Amazon.com, Inc.	3.82	1.56	US
TransUnion	3.78	0.03	US
Unilever PLC	3.37	0.14	UK
Nintendo Co., Ltd.	3.10	0.09	JP
Accenture Plc Class A	2.96	0.26	US
LHC Group, Inc.	2.87	0.00	US
Koninklijke Philips N.V.	2.85	0.09	NL
Sony Corporation	2.83	0.16	JP

Geographical Allocation



Market Commentary

Global equity indices slowly edged upwards, August's recession fears gave way to hope that the same central bankers and politicians that had caused the slowdown in economic data evident in recent months could now reverse it. Certainly the tone of Central Bankers (including the outgoing head of the ECB, Mario Draghi) remained generally dovish in September, with the ECB restarting its bond buying programme. This could lead to the issuance of Eurobonds to finance large scale infrastructure investment. Part of the reason for the renewed need for monetary support is the uncertainty caused by political instability. Last month saw this instability become even more pronounced. After a 'whistle-blower' revealed details of a phone call between President Trump and his Ukrainian counterpart, impeachment proceedings were initiated by the Democrats. The UK's attempt to leave the European Union became even more complicated, with Prime Minister Boris Johnson ruled to have acted unlawfully in temporarily suspending Parliament. Little wonder then that confidence levels have continued to fall and spending has softened. Sector-wise, this month's best performers were by and large last month's worst performers, with Financials and Energy leading the way. Low starting valuation and economic sensitivity were very much the flavour of the month. The worst performing sectors this month were traditional defensives - Healthcare, Communication Services and Consumer Staples. Japan outperformed this month as the Yen depreciated, with trade tensions perhaps easing a little. The UK also outperformed, despite the political uncertainty noted above. The US marginally underperformed in September, as did most Emerging Markets – most likely due to the resilience of the USD.

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

The portfolio underperformed its benchmark by 1.17% this quarter, with a return of -2.60% on a gross basis against the MSCI ACWI (139% gross hedged to NZD) return of -1.43%. Holdings with a notable impact on returns included the following: Li Ning continued its exceptional performance in Q3 as the company released another strong trading update in August. The highlights were 33% revenue growth, ongoing profit margin expansion and a reduction in working capital. Transunion benefitted from quarterly numbers that showed a marked acceleration in organic growth at its US Information Services business. Rentokil also benefitted from better than expected quarterly numbers. Organic revenue growth for their pest control and hygiene businesses outstripped long-term group level targets and profit margins continued to expand nicely, particularly in the US. Negative contributors for the quarter included Burford Capital which suffered after a report by a short seller was released, criticising its approach to calculating returns and questioning their solvency. Anthem fell on continued concerns over the potential impact of Bernie Sanders' push for 'Medicare for All'. These fears increased when Elizabeth Warren also stated her support for the policy and her polling began to be approved. If enacted, this would make the commercial insurance market irrelevant and threaten some of Anthem's more profitable insurance business. AIA and Prudential suffered from deteriorating sentiment towards financials, as economic confidence weakened. In both cases, this negativity was exacerbated by concerns over the health of the Chinese economy in the face of rising tension with the US.

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	$73.4m

Compliance

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

Contact Us

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