

# NIKKO AM GLOBAL SHARES UNHEDGED STRATEGY

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

## Market Overview

- Global equity indices continued to edge higher in October, fuelled by the anticipation that a trade deal was imminent between the US and China.
- October has seen the start of the latest quarterly corporate earnings reports. At a macro level, these have generally been in-line with or slightly ahead of expectations.
- Sector-wise, this month's best performers were Healthcare and Information Technology. The worst performing sector this month was Energy, as investors reacted to news of rising US crude inventories. Traditional defensives like Utilities and Consumer Staples also underperformed as investors took profits in strong performers earlier in the year.

## Fund Highlights

- The portfolio underperformed its benchmark during October (in NZD terms).
- Li Ning, Anthem and Prudential and ResMed made the greatest positive contribution to performance over the month.
- Progressive, Philips and Nintendo were negative contributors to performance.

## Performance

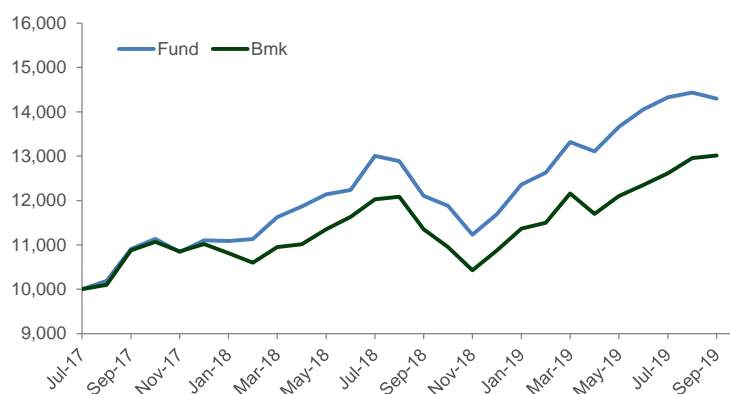
	One month	Three months	One year	Three years (p.a)	Five years (p.a)	Ten years (p.a)
Wholesale <sup>1</sup>	-0.97%	1.71%	18.08%			
Benchmark <sup>2</sup>	0.45%	5.40%	14.65%			
Retail <sup>3</sup>	0.92%	1.91%	20.43%			
KiwiSaver <sup>3</sup>	0.97%	2.29%	22.06%			

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), 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). 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.

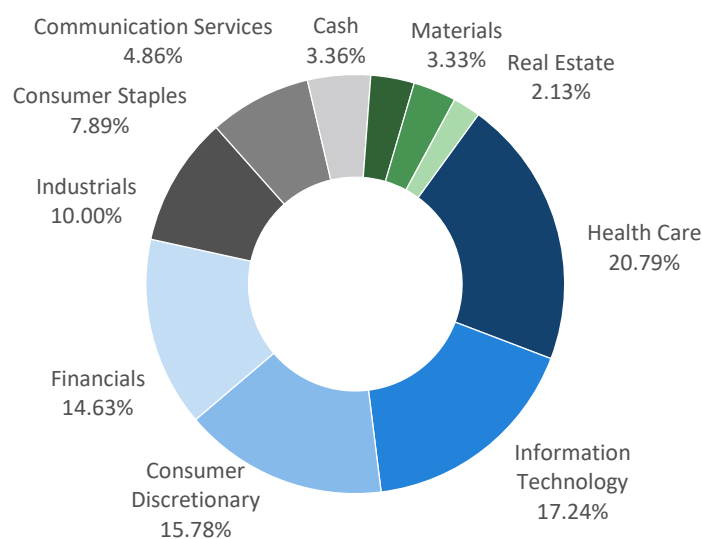
## Overview

The fund provides investors with a relatively concentrated actively managed portfolio of global equities to achieve long term capital growth.

## Objective

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

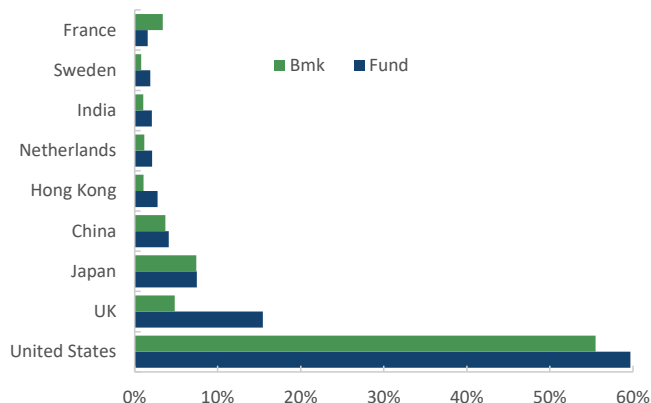
## Asset Allocation



### Top 10 Holdings

	Fund	MSCI	Country
Microsoft Corporation	5.19	2.18	US
Amazon.com, Inc.	3.82	1.55	US
TransUnion	3.76	0.03	US
Progressive Corporation	3.66	0.09	US
Unilever PLC	3.27	0.14	UK
Nintendo Co., Ltd.	2.90	0.08	JP
Sony Corporation	2.88	0.16	JP
AIA Group Limited	2.87	0.25	HK
Anthem, Inc.	2.79	0.14	US
Accenture Plc Class A	2.79	0.25	US

### Geographical Allocation



### Market Commentary

Global equity indices continued to edge higher in October, in anticipation that a trade deal was imminent between the US and China. Although the timing remains unclear at this stage, it looks like politicians have decided that it is probably not a good idea to stand for re-election in the coming months against a backdrop of falling investment confidence and stock markets. The US Federal Reserve delivered its expected interest rate cut this month. The UK and the EU reached an agreement on the terms of a Withdrawal Agreement - necessary before the UK can leave the EU and begin negotiating a long-term trade deal. Although the UK parliament failed to ratify these terms by the scheduled October 31 deadline (and have now declared a General Election, in the hope of doing so at a later date), this progress was gratefully received by investors in Sterling. October has seen the start of the latest quarterly corporate earnings reports. At a macro level, these have generally been in-line with or slightly ahead of expectations. Where the disappointments have come in highly valued, defensive sectors (like Beverages) the reaction has been fairly severe, as seen in AB InBev's 11% fall. The reaction has been much more muted however, in some cyclical sectors, with investors keen to believe that the bad news was reaching its end at companies like Caterpillar. Sector-wise, this month's best performers were Healthcare and Information Technology. Healthcare earnings have been strong and sentiment was helped by a growing sense that US voters were less willing to support further, radical restructuring of the industry so soon after the advent of Obamacare. Tech was led higher by semiconductors, helped by increased optimism regarding demand from 5G implementation and on global trade. The worst performing sector this month was Energy, as investors reacted to news of rising US crude inventories. Traditional defensives like Utilities and Consumer Staples also underperformed as investors took profits in strong performers earlier in the year.

### Fund Commentary

The portfolio underperformed its benchmark for October (hedged to NZD). Holdings with a notable impact on returns included the following: **Li Ning** once again did very well this month as investor confidence in the growth of the Chinese sportswear market continued to build and several investment banks upgrading their rating on the stock. **Anthem** gained as fears over US political risk reduced somewhat, as it is becoming increasingly clear that US voters want a Government programme as a voluntary alternative to their private health insurance, rather than a mandatory selection. This would remove a substantial risk to Anthem's commercial business. **ResMed** climbed 12% after results easily outstripped expectations. Their US sleep apnoea mask business once again grew much more strongly than expected, as new products drive market share expansion. **Prudential** benefitted from improved political conditions as the probability of a damaging no-deal Brexit was seen as substantially reduced. Negative performers in included **Progressive** which has given up some of its strong gains year-to-date on concerns that loan loss ratios are moving in the wrong direction, likely not helped by non-recurring losses related to catastrophes. **Philips** warned that full year margin expansion would miss their forecasts and **Nintendo** fell at the start of the month after reports of slightly disappointing early Japanese sales of the new Switch Lite console. Much of the lost ground was recovered later in the month however, as sales picked up and the launch of Mario Karts for smartphones started well.

### Key Fund Facts

#### Distributions

Generally does not distribute

#### Hedging

Any foreign currency exposure is unhedged.

#### 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 (Incl GST)

Wholesale: negotiated outside of the unit price  
 Retail: 1.22%, refer PDS for more details  
 Kiwisaver: 1.17%, refer PDS for more details.

#### Buy / Sell Spread

0.07%/0.07%

#### Strategy Launch

July 2017

#### Strategy size

\$168.1m

### Compliance

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

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