

# NIKKO AM GLOBAL SHARES HEDGED STRATEGY

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 finished the year strongly, adding almost 9% (USD) in Q4. However returns for domestic investors were more muted as the NZ dollar appreciated more than 7% against the US dollar over the quarter.
- The strongest performance came from information technology and healthcare. The worst performers this quarter were mostly defensives. Utilities, consumer staples and real estate all underperformed significantly.

## Fund Highlights

- Over the quarter, the portfolio underperformed its benchmark by 97 basis points (bps), but performed well over 2019.
- Anthem, LHC Group and Prudential and Sony made the greatest positive contribution to performance.
- Progressive, Unilever and Compass Group 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>	3.88%	9.07%	29.27%			
Benchmark <sup>2</sup>	4.19%	10.04%	25.08%			
Retail <sup>3</sup>	2.98%	8.89%				

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

## 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.

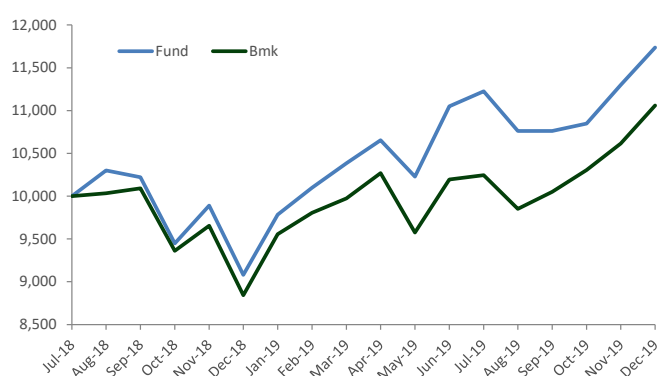
## Overview

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.

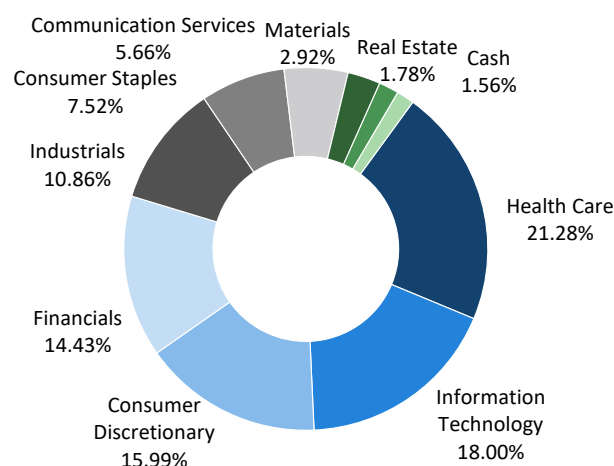
## Objective

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.<sup>1,2</sup>



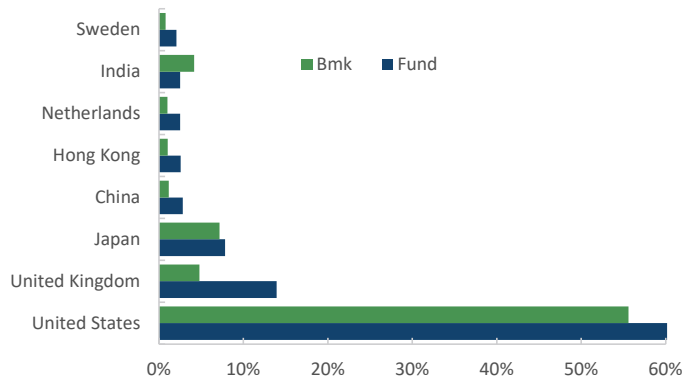
## Asset Allocation



## Top 10 Holdings

	Fund	MSCI	Country
Microsoft Corporation	5.50	2.25	US
TransUnion	3.91	0.03	US
Progressive Corporation	3.66	0.08	US
Amazon.com, Inc.	3.56	1.53	US
LHC Group, Inc.	3.49	0.00	US
Anthem, Inc.	3.22	0.15	US
Accenture Plc Class A	3.21	0.26	US
Nintendo Co., Ltd.	3.16	0.09	JP
Sony Corporation	3.08	0.17	JP
Adobe Inc.	3.05	0.31	US

## Geographical Allocation



## Market Commentary

Central banks around the world responded to softening economic data by turning the liquidity taps back on. Political risks also eased somewhat, as the US and China apparently reached agreement over the terms of Phase 1 of a trade deal. Although less important, the long drawn out saga of Brexit also looks like it may start moving towards a solution, after December’s General Election in the UK.

The quarter has seen a diminishing bid for safety as a result. Bond yields have increased somewhat and the USD has depreciated too. There has been some evidence of mean reversion in terms of sector performance this quarter, with some of the year’s underperformers enjoying better returns (Financials & Materials). Although Financials outperformed slightly in aggregate (Banks more than Insurance), the strongest performance actually came from Information Technology and Healthcare. IT benefitted from increased demand for certain cyclicals (like semiconductors, where 5G is improving sentiment) and renewed strong performance from parts of the FAANG cohort of stocks. Healthcare outperformed despite the bid for cyclical as US political risk was seen as falling, with Elizabeth Warren losing momentum in polling. The worst performers this quarter were mostly defensives. Utilities, Consumer Staples and Real Estate all underperformed significantly. Part of the weakness in Staples was attributable to stock specific issues, with several big players announcing disappointing quarterly results. Energy also underperformed over the period.

With Information Technology comfortably outperforming Financials and ‘Big Oil’ struggling to make much ground (despite rising tensions again in the Middle East), Growth once again outperformed Value over the quarter.

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

The portfolio returned 9.07% over the quarter. Holdings with a notable impact on returns included **Anthem** who outperformed as investors grew more confident on the medium-term outlook for private health insurance providers in the US. **LHC Group** shares rose 11% at the start of November after the Centres for Medicare and Medicaid Services (CMS) in the US announced 2020 reimbursement terms for home healthcare providers like LHC. **Prudential** benefitted from improving sentiment towards Chinese economic growth, as the US and China eventually agreed terms of Phase 1 of a trade deal. **Progressive** gave up some of its strong gains on concerns that loan loss ratios are moving in the wrong direction, likely not helped by non-recurring losses related to catastrophes. **Unilever** fell after announcing that organic revenue growth will be below the targeted 3-5% range in 2019 and at the low end in 2020. The main factors remain an aggressive competition in developed markets. **Compass Group** suffered after the company shared guidance for weaker than expected profit margins in 2020, as economic weakness in Europe weighs on employment numbers in industries such as manufacturing, financial services and automotive.

## 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

Securities that conduct activities listed on the Schedule to Cluster Munitions Prohibition Act 2009. Tobacco manufacturers.

### Restrictions

Adult entertainment, gambling, fossil fuels, alcohol stocks. For more information please refer to the Statement of Investment Policy and Objectives (SIPO) which can be found on our website <https://www.nikkoam.co.nz/invest/retail>.

### 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	\$89.9m

## Compliance

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

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