

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 markets were hit by COVID-19 over the first quarter of 2020, with most global equity indices suffering one of their worst declines ever. While not as deep as the financial crisis of 2008, this crash was much faster. Energy, materials and financial sectors were hardest hit, while the best performing sectors have been defensives, with healthcare, information technology, consumer staples, utilities and communication leading the way.

Fund Highlights

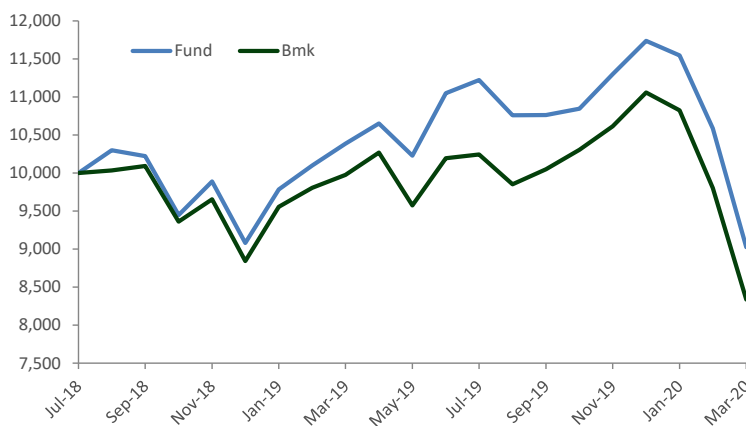
- The fund ended the quarter down 23.1%, 1.5% ahead of the benchmark.
- LHC Group, Progressive and Microsoft positively contributed to performance.
- Woodward, Weir Group and Banking stocks were negative contributors to performance.

Performance

	One month	Three months	One year	Three years (p.a)	Five years (p.a)	Ten years (p.a)
Wholesale ¹	-14.77%	-23.12%	-13.11%			
Benchmark ²	-14.96%	-24.63%	-16.43%			
Retail ³	-16.41%	-22.54%				

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.

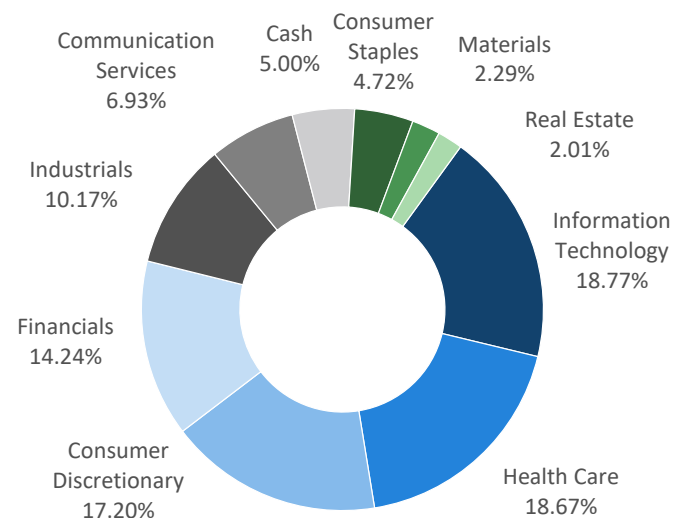
Overview

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.

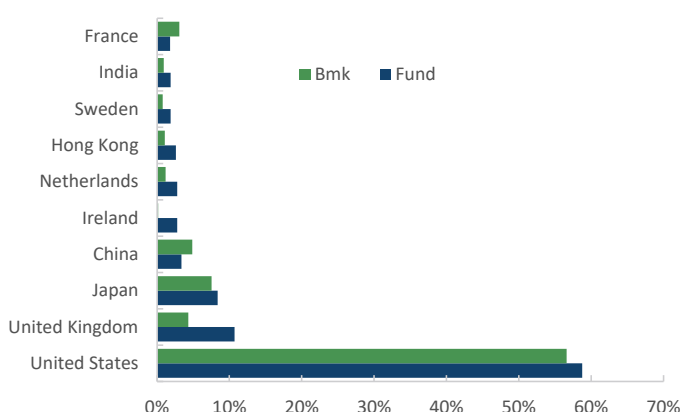
Asset Allocation



Top 10 Holdings

	Fund	MSCI	Country
Microsoft Corporation	6.56	2.87	US
Amazon.com, Inc.	4.48	2.07	US
LHC Group, Inc.	4.02	0.00	UK
Nintendo Co., Ltd.	3.57	0.11	Japan
Progressive Corporation	3.39	0.11	US
Tencent Holdings Ltd.	3.36	0.71	China
Adobe Inc.	3.20	0.39	US
Sony Corporation	3.09	0.19	Japan
Accenture Plc Class A	2.97	0.26	US
Anthem	2.89	0.14	US

Geographical Allocation



Market Commentary

This was the quarter when COVID-19 transformed into a global pandemic. Credit spreads blew out as Government bond yields sunk to levels not even seen during the Global Financial Crisis, as Governments around the world announced large assistance programs. The financial pain felt by business owners has been more immediate, with businesses often shuttered with zero notice. The best performing sectors have been defensives, with Healthcare and Consumer Staples leading the way. Although all cyclical sectors underperformed, the worst performing sector was Energy, by some margin. Financials, Industrials and Materials also fell more than global indices this month. Growth meaningfully outperformed at the start of the month but Value recovered somewhat towards month end as markets recovered some of the lost ground, driven by announcements of large Government and Central Bank interventions, designed to prevent an enduring financial crisis.

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

The portfolio marginally outperformed its benchmark over the quarter. The decline in the NZ dollar had a significant impact on the performance of the fund - far greater than the underlying assets. Holdings with a notable impact on returns include **LHC Group** stock, which gained from the perception that hospitals and patients would be keener than ever to administer healthcare outside the hospital setting, to both minimise infection risk and maintain intensive care capacity for those that do become infected. **Microsoft** enjoyed a high proportion of recurring revenues and has a strong balance sheet. Both of these factors have been much in demand this quarter. **Progressive** also outperformed this month. **Woodward's** share price was weak on concerns over the financial duress suffered by its airline customers amid widespread travel bans. **Weir Group** suffered because of both of the macroeconomic shocks that played out this month. The Oil & Gas business (although only 10% of sales) continues to hurt sentiment too. Banking stocks have endured a difficult quarter with bond yields falling quickly as investors once again crowded into safe havens. The abrupt economic shutdown has also increased concerns over the solvency of businesses and the recoverability of their bank loans.

We have not transacted much on the portfolio at this stage but we are beginning to make some changes. Companies that have long satisfied our requirements in terms of management quality, franchise quality and balance sheet quality but where valuation suggested that this was already reflected in the share prices now look more attractively priced. In some cases, these will be businesses operating in relatively cyclical industries, where they will emerge from the crisis with a strengthened competitive position.

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	\$71.8m

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

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