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Nikko Asset Management

Factsheet 30 September 2020

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

- Despite giving up some ground in September, global equity indices enjoyed a positive third quarter, with the MSCI All Countries World Index climbing more than 5% (NZD, unhedged).
- The consumer discretionary and information technology sectors have been the best performing sectors this quarter. The weakest sectors this quarter were, once again, energy and financials. The oil price has actually been fairly steady in Q3 but this has not stopped oil-related equities underperforming materially.

Fund Highlights

- The portfolio returned 0.55% over the month, 7.84% for the quarter, well ahead of benchmark.
- SolarEdge, Kingspan and Meituan Dianping positively contributed to performance for the quarter.
- LivaNova, Bio-Techne and TransUnion 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]	0.55%	7.84%	15.36%	17.81%		
Benchmark[2]	-1.04%	5.31%	4.77%	10.36%		
Retail[3]	-0.29%	8.39%	15.38%	16.34%		
KiwiSaver[3]	-0.30%	8.38%	15.42%			

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.

Investment Manager

The Global Shares Strategy is managed by Nikko AM's Global Equity team that 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.

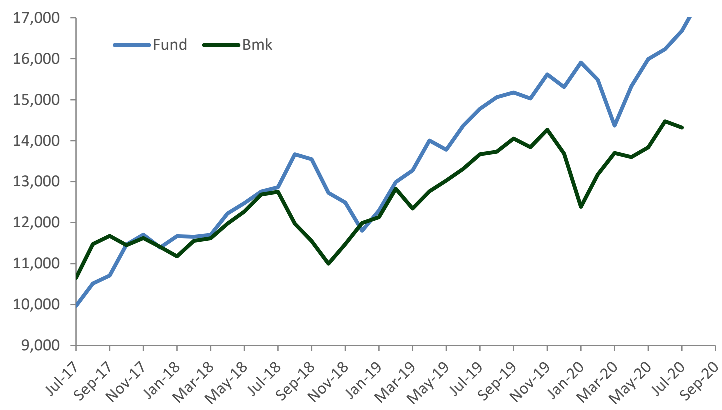
Overview

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

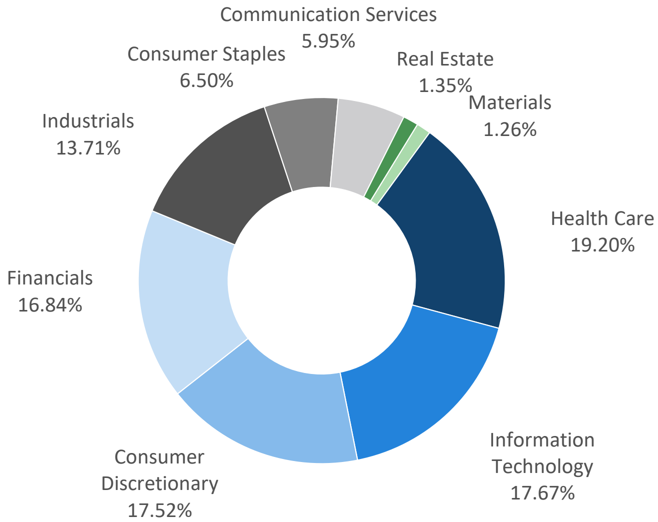
Objective

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

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



Asset Allocation



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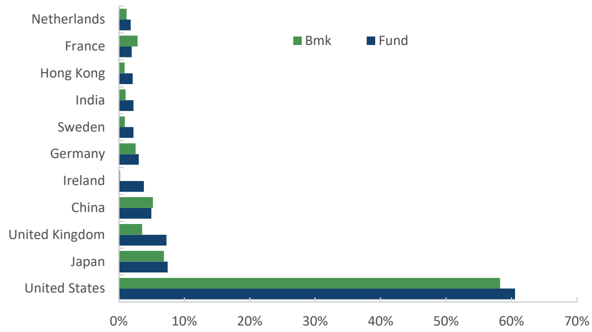
Top 10 Holdings (%)

	Fund	MSCI	Country
Amazon.com, Inc.	4.81	2.60	US
Microsoft Corporation	4.81	2.95	US
Tencent Holdings Ltd.	3.34	0.74	China
Accenture Plc Class A	3.07	0.28	US
HelloFresh SE	3.04	0.00	Germany
LHC Group, Inc.	2.97	0.00	US
Sony Corporation	2.95	0.19	Japan
LabCorp	2.94	0.04	US
Progressive Corporation	2.93	0.11	US
Adobe Inc.	2.76	0.46	US

Geographical Allocation



EM exposure **Fund 7.18%** **Benchmark 12.40%**

Market Commentary

Despite giving up some ground in September, global equity indices enjoyed a positive third quarter, with the MSCI All Countries World Index climbing more than 5% (NZD, unhedged). Abundant liquidity, poor real levels of return in alternative asset classes and an increasing hope that the worst of the economic upheaval caused by COVID-19 is behind us all helped drive markets higher - despite persistently high COVID-19 case numbers and elevated political uncertainty ahead of the US Presidential election on 3 November. Although reported infection rates have remained generally well controlled in some countries (most notably China), September has seen a re-acceleration in Europe and the US and the virus has crept back to being the first item on nightly news bulletins. The consumer discretionary and information technology sectors have been the best performing sectors this quarter. With Amazon and Alibaba now representing almost 30% of the consumer discretionary sector, it is little wonder that the returns of the two growth sectors remain reasonably elevated. The combination of strong (COVID-19-proof) revenue growth and exceptionally strong cash flow generation has continued to underpin these stocks throughout most of the quarter. That said, September saw a pause for breath as investors grew increasingly concerned about the valuations that they were being asked to pay for these characteristics. The weakest sectors this quarter were, once again, energy and financials. The oil price has actually been fairly steady in Q3 but this has not stopped oil-related equities underperforming materially. Valuations are yet to provide any support for these stocks, with cleaner energy sources remaining at the vanguard of many investor portfolios. Financials continue to struggle against a backdrop of mounting loan loss provisions and flat yield curves.

Fund Commentary

The portfolio returned 0.55% over the month, 7.84% for the quarter, well ahead of benchmark. Positives included **SolarEdge,** which rose almost 20% on the day that it delivered quarterly results in August, as they easily exceeded expectations. Management also commented that demand for their products had returned to, or exceeded pre-COVID levels in EMEA and was recovering nicely in the US. **Kingspan,** which benefitted from results that were better than expected, with reported sales and profits both 25-30% ahead of expectations, with June seeing a notable improvement in demand from the construction industry, as lockdown measures eased. **Meituan Dianping** also outperformed again this quarter as company results confirmed the strong recovery being seen in meal deliveries in China. There was also more evidence that higher-end restaurants were joining the platform, suggesting that delivery is becoming a long-term part of the eating out/in solution rather than just something for lockdown. Negatives for the quarter included **LivaNova** that underperformed after Q2 results showed that the recovery in implants of their treatment for epilepsy was lagging other medical procedures. The company also lowered earnings guidance, to reflect the cost of the refinancing package agreed in June. **Bio-Techne** which failed to keep up with the market, having been seen as one of the big winners of rising investments in life sciences research earlier in the year, and **TransUnion** suffered as investors rotated out of commercial services stocks and into more cyclical parts of the Industrials sector, as fears over the impact of the coronavirus dissipated in the US. There was no stock specific news. (**Bold** denotes stocks held in the portfolio)

Key Fund Facts

Distributions

Generally does not distribute

Hedging

Any foreign currency exposure is unhedged.

Estimated annual fund charges (Incl. GST)

Wholesale: negotiated outside of the unit price
Retail: 1.22%, refer PDS for more details
KiwiSaver: 1.15%, refer PDS for more details.

Exclusions

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

Buy / Sell Spread	Strategy Launch	Strategy size
0.07%/0.07%	July 2017	$294.8m

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 our website https://www.nikkoam.co.nz/invest/retail.

Compliance

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

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