

Factsheet 31 October 2020

NIKKO AM GLOBAL EQUITY UNHEDGED STRATEGY

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

Market Overview

- Global equity markets continued their recent consolidation around the levels seen before COVID-19. The MSCI All Country World Index returned -2.42% (NZD, unhedged) over the month. Investor optimism earlier in the month slowly gave way to concerns over the outcome of the US Presidential election as the month wore on.
- Healthcare continued to underperform in October, with similar political considerations very much in focus. Pharmaceuticals and biotech were particularly out of favour – driven by fear over aggressive drug pricing reform.
- Emerging Asia continued to lead the way this month – likely helped by lower political risk and better COVID-19 data. Europe and the UK continue to significantly underperform, with apparently attractive relative valuations providing little support.

Fund Highlights

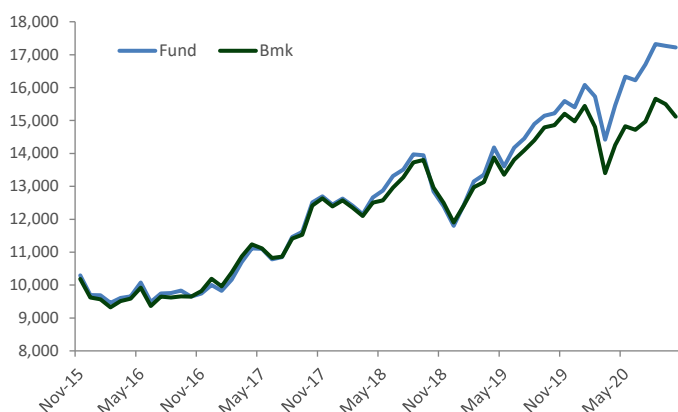
- The fund returned -0.26% over the month, 216 bps ahead of benchmark.
- All three managers outperformed – NAME, was more than 300 bps ahead of benchmark, WCM added 215 bps and Royal London finished the month 100 bps ahead. Stock selection drove most of the outperformance, with minor deduction from sector allocation and currency selection.

Performance

	One month	Three months	One year	Three years (p.a)	Five years (p.a)	Ten years (p.a)
Wholesale ¹	-0.26%	3.10%	13.18%	11.25%	11.49%	
Benchmark ²	-2.42%	1.00%	1.78%	6.79%	8.62%	
Retail ³	0.31%	3.22%	11.38%	10.44%	10.20%	

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.

Five Year Cumulative Performance (gross), \$10,000 invested^{1,2}



Investment Manager

The multi-manager global equity strategy is managed by Nikko AM's multi-strategy team based across Sydney and Singapore. This team provides advice and input to the Nikko AM NZ Investment Committee which is responsible for the ongoing selection, monitoring and review of the underlying investment managers. The Nikko AM NZ Investment Committee comprises senior members from the business and is chaired by the Managing Director, George Carter.

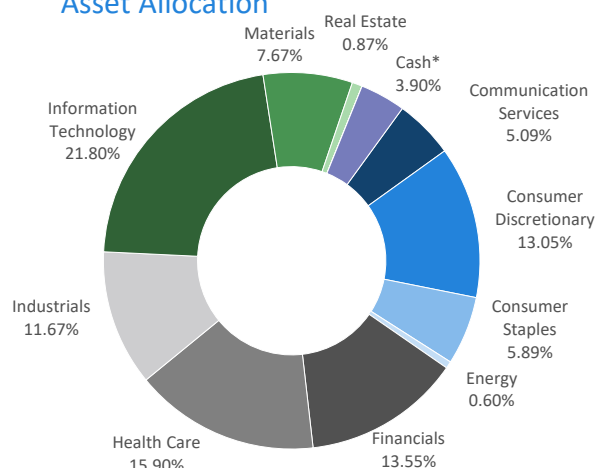
Overview

This fund aims to provide investors with long term growth from an actively managed investment portfolio selected from global equity markets. Currency exposures created as a consequence of global equity investment are unhedged.

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
Amazon.com	3.30%	2.57%	US
Microsoft Corp	3.15%	2.91%	US
Visa Inc	2.65%	0.61%	US
Tencent Holdings	2.46%	0.87%	China
Taiwan Semiconductor	2.33%	0.74%	Taiwan
Progressive Corp	1.92%	0.11%	US
Mercadolibre Inc	1.76%	0.11%	US
Reliance Steel & Aluminum	1.74%	0.00%	US
Church & Dwight Co	1.72%	0.04%	US
HDFC Bank	1.69%	0.00%	India

Manager	Allocation	Active Return
NAME	29.99%	3.46%
Royal London	34.11%	1.00%
WCM	34.45%	2.15%
Cash & Derivatives	1.45%	N/A

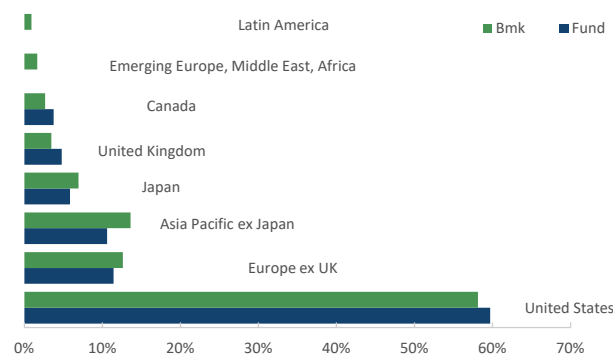
What helped	What Hurt
HDFC Bank	o/w Visa Inc o/w
Tencent Holdings	o/w Alphabet Class C u/w
Steel Dynamics	o/w Shopify Inc o/w

OW: overweight; UW: underweight; NH: no holding – month end position

Market Commentary

Global equity markets continued their recent consolidation around the levels seen before COVID-19. Investor optimism earlier in the month slowly gave way to concerns over the outcome of the US Presidential election as the month wore on. News of the re-imposition of partial economic lockdowns across Europe also helped to sour sentiment. As we grew closer to the US Presidential election, opinion polls pointed consistently towards a Biden presidency. This led to increased fears over increasing tax rates and potentially regulatory scrutiny under a Democratic White House and gave investors another reason to revisit the valuation being afforded to the information technology sector. Healthcare continued to underperform in October, with similar political considerations very much in focus. Pharmaceuticals and biotech were particularly out of favour – driven by fear over aggressive drug pricing reform. Being a defensive sector with a clear top down risk made it easy for the market to look elsewhere this month. Whilst there remains a general bid for cyclical sectors at present, value is not yet making much progress relative to growth. Part of the reason for this remains value's relatively high exposure to sectors that traditionally require a period of sustained inflation to outperform – namely energy and financials. Emerging Asia continued to lead the way regionally this month – likely helped by lower political risk and better COVID-19 data. Europe and the UK continue to significantly underperform, with apparently attractive relative valuations providing little support.

Geographical Allocation



EM exposure Fund 8.78% Benchmark 12.99%

Fund Commentary

The fund had an excellent month in terms of downside protection, returning -0.26% to outperform benchmark return of by a significant margin of 216 basis points (bps). All three managers outperformed – NAME, was more than 300 bps ahead of benchmark, WCM added 215 bps and Royal London finished the month 100 bps ahead. Stock selection drove most of the outperformance, with minor detraction from sector allocation and currency selection. Top contributors were diversified across developed and emerging markets, as well as across industries. The Indian diversified bank HDFC Bank benefitted from better than expected quarterly results and from signs that the Indian economy may have seen the worst of the impact from the coronavirus. Tencent also performed well, helped by the continued strength of the Chinese economy (and its equity market) relative to other parts of the world. Both Tencent's mobile gaming business and its e-commerce offering (via Wechat) continue to exhibit exceptionally strong growth at present. The US steel producer and metals recycler Steel Dynamics also had a good month and continues to receive broker upgrades. Other top performers were the South American e-commerce business Mercadolibre (WCM's top holding), and the California-based high-tech commercial bank, SVB Financial Group. SVB focuses on lending to technology companies in Silicon Valley but also provides private banking services to high net worth individuals, and financial services to wine producers in the Napa Valley. Among the top detractors from performance were mostly holdings which have performed well recently, e.g. Visa Inc., Shopify Inc., Odaco Group and Eli Lilly & Co. The fund does not hold the non-voting C-class Alphabet (the parent company of Google), hence it was one of the top detractors from performance. However the fund does have exposure to the A-class of Alphabet.

Key Facts

Distributions

Generally does not distribute

Hedging

Any foreign currency exposure is unhedged.

Exclusions

Any security that conduct activities listed on the Schedule to the Cluster Munitions Prohibition Act 2009 and tobacco manufacturers.

Estimated annual fund charges (Incl. GST)

Wholesale: negotiated outside of the unit price

Retail: 1.37%, refer PDS for more details

Buy / Sell spread: Strategy Launch Strategy size

0.07% / 0.07% October 2008 \$257.7m

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

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