

Factsheet 31 October 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

- 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

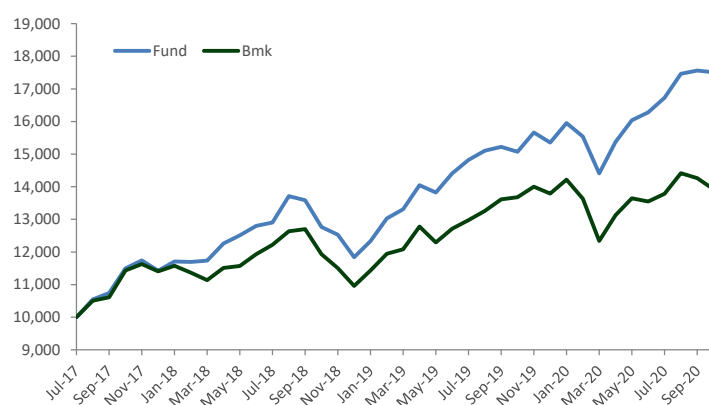
- The portfolio returned -0.27% over the month, well ahead of benchmark.
- SVB Financial, Tencent and HDFC positively contributed to performance for the month.
- Insurers Palomar, Aon and Prudential underperformed, along with Adobe which was also negative contributor to performance after profit taking by investors in the Information Technology sector.

Performance

	One month	Three months	One year	Three years (p.a)	Five years (p.a)	Ten years (p.a)
Wholesale ¹	-0.27%	4.69%	16.18%	15.05%		
Benchmark ²	-2.42%	1.00%	1.78%	6.79%		
Retail ³	0.99%	4.97%	15.46%	14.20%		
KiwiSaver ³	0.98%	4.95%	15.43%			

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.^{1,2}



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.

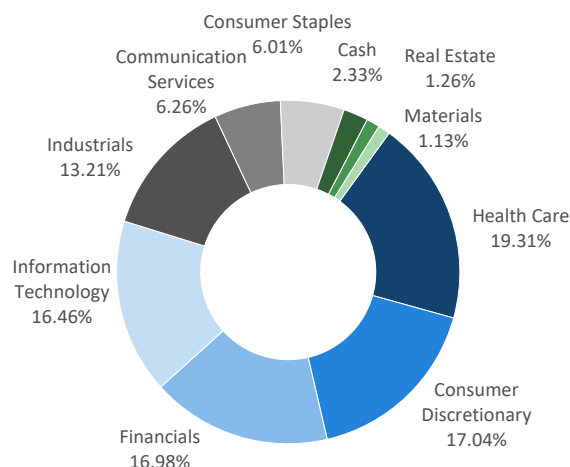
Overview

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.

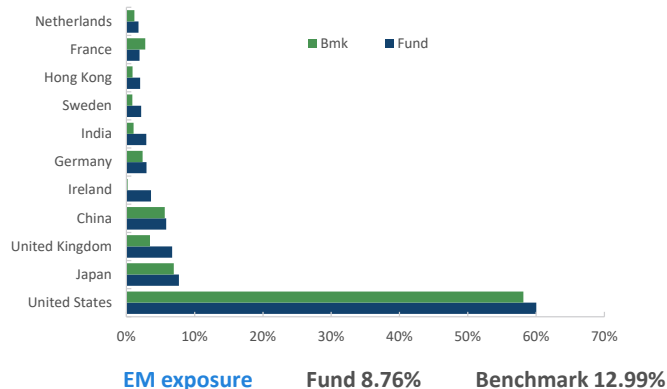
Asset Allocation



Top 10 Holdings (%)

	Fund	MSCI	Country
Amazon.com, Inc.	4.68	2.57	US
Microsoft Corporation	4.67	2.91	US
Tencent Holdings Ltd.	3.89	0.87	China
Sony Corporation	3.24	0.21	Japan
LabCorp	3.14	0.04	US
LHC Group, Inc.	3.05	0.00	US
Accenture Plc	2.97	0.28	US
HelloFresh SE	2.94	0.00	Germany
HDFC Bank Limited	2.92	0.00	India
Progressive Corporation	2.87	0.11	US

Geographical Allocation



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.

Fund Commentary

The portfolio returned -0.27% for the month, well ahead of benchmark. Positives included **SVB Financial** which outperformed on the back of extremely solid quarterly numbers, even as less differentiated banks have continued to struggle. **Tencent** has remained a very strong performer this month, helped by the continued strength of the Chinese economy (and equities) relative to other parts of the world, where the coronavirus continues to pose more of a threat to economic activity. **HDFC** 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. Holdings which negatively impacted the fund included **Palomar** that succumbed to profit taking this month after an extremely strong run in the shares. The catalyst for the profit taking was a pre-announcement of greater than expected insurance losses as a result of natural catastrophes, with four hurricanes having hit the US in the quarter. The majority of these losses have been reinsured by Palomar so the actual losses will be much lower. The impact of these events will also place more stress on traditional insurance providers, offering more opportunities to technology leaders like Palomar in the long run. **Aon** and **Prudential** have both been impacted by this, despite Aon publishing solid numbers towards month end, once again exhibiting the impressive operating cost control that management have over the business. **Adobe** saw some profit taking later in the month, along with other highly-rated parts of the Information Technology sector, as investors questioned the premium valuations attached to these stocks. **Bold** denotes stocks held in the portfolio)

Key Fund Facts

Distributions

Generally does not distribute

Hedging

Any foreign currency exposure is unhedged.

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 (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.

Buy / Sell Spread

0.07%/0.07%

Strategy Launch

July 2017

Strategy size

\$304.7m

Compliance

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

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