nikko am
Nikko Asset Management

Factsheet 28 February 2021

NIKKO AM GLOBAL EQUITY HEDGED STRATEGY

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

Market Overview

- Global equity markets rose slightly in February, the main driver was the ongoing sell-off in the bond market as inflation expectations were buoyed by central bank support and looser fiscal policy
- Abundant liquidity and generally rising inflation expectations have continued to reduce the attractiveness of growth stocks in February. Many relative winners from 'working from home' have underperformed as investors rotated into companies more likely to enjoy an improvement in their pricing power and near-term earnings revisions as a result of improving economic growth.
- Energy the strongest sector in the market. The other stand-out performer was Financials, with banking shares in particular enjoying a marked improvement in sentiment as yield curves steepened. Other cyclical parts of the market also outperformed, though by a much smaller extent. Both Materials and Industrials benefitted from increased investor confidence.

Fund Highlights

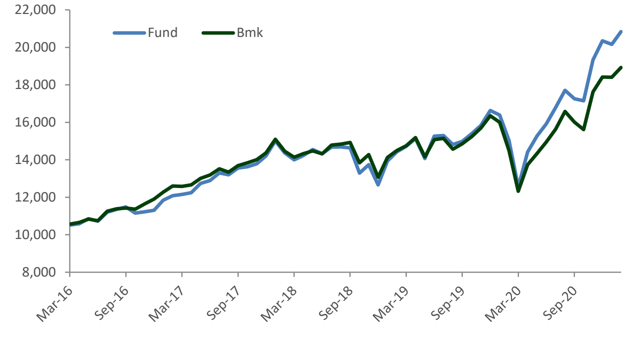
- The fund returned 3.37% in February to trail the index by 57 basis points (bps). It was a tough month for WCM and NAME as their quality growth strategies faced stiff style headwinds, but Royal London made up for most of those headwinds with almost 300 bps outperformance over the month. At a fund level, the top contributors to performance were a large underweight to Apple (which underperformed), nil exposure to Tesla (which fell 15%), and overweights to Anglo American, Steel Dynamics and LivaNova plc.

Performance

	One month	Three months	One year	Three years (p.a)	Five years (p.a)	Ten years (p.a)
Wholesale[1]	3.37%	7.81%	38.69%	13.21%	15.83%	
Benchmark[2]	2.80%	7.33%	30.59%	9.38%	13.61%	
Retail[3]	4.00%	8.91%	36.22%	12.18%	15.00%	

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.

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.

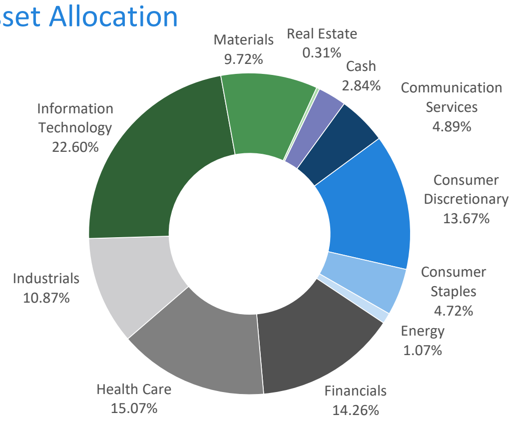
Overview

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 gross hedged at 139% to NZD.

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



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Top 10 Holdings	Fund	MSCI	Country
Microsoft Corp	3.70%	2.78%	US
Amazon.com	3.03%	2.19%	US
Taiwan Semiconductor	2.77%	0.89%	Taiwan
Visa Inc	2.53%	0.60%	US
Anglo American plc	2.25%	0.08%	South Africa
Steel Dynamics Inc	2.15%	0.01%	US
Reliance Steel & Aluminium	2.09%	0.00%	US
Tencent Holdings	2.06%	0.82%	China
Progressive Corp	1.88%	0.08%	US
Samsung Electronics	1.67%	0.00%	South Korea

Manager	Allocation	Active Return
NAM Europe	30.37%	-2.91%
Royal London	42.00%	2.96%
WCM	25.94%	-1.73%
Cash & Derivatives	1.68%	N/A

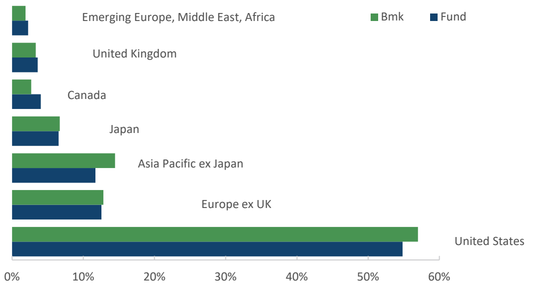
What helped		What Hurt	
Apple Inc	U/W	Mercadolibre Inc	O/W
Anglo American plc	O/W	Palomar Holdings	O/W
Steel Dynamics Inc	O/W	Ocado Group plc	O/W

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

Market Commentary

Global equity markets rose slightly in February, the main driver was the ongoing sell-off in the bond market as inflation expectations were buoyed by central bank support and looser fiscal policy. Although too much inflation, too fast would doubtless be a drag on equity performance, investors currently believe that cost and wage pressures are not yet likely to necessitate any monetary tightening by the Federal Reserve. Although the market didn't advance much, there was further evidence of a change in leadership. Abundant liquidity and generally rising inflation expectations have continued to reduce the attractiveness of growth stocks in February. Many relative winners from 'working from home' have underperformed as investors rotated into companies more likely to enjoy an improvement in their pricing power and near-term earnings revisions as a result of improving economic growth. This was particularly true of commodity sectors, with Energy the strongest sector in the market. The other stand-out performer was Financials, with banking shares in particular enjoying a marked improvement in sentiment as yield curves steepened. Other cyclical parts of the market also outperformed, though by a much smaller extent. Both Materials and Industrials benefitted from increased investor confidence. This strong performance from Basic Materials came despite traditional warning signals such as a softening in China's credit impulse and the stabilisation of the US Dollar after a period of sharp depreciation against the currencies of the US's major trading partners. Most defensive sectors failed to keep pace with the market this month. The weakest performance came from Utilities (falling almost 6% in absolute terms), but Healthcare and Consumer Staples also delivered negative absolute returns in February. The best performing regions this month included the UK and Canada, reflecting some of the sector level rotation noted above. Both regions benefit from an above average exposure to big oil and retail banking. The US also marginally outperformed, helped by rising hopes of a fiscal stimulus package being passed by Congress. All other major regions marginally underperformed with Emerging Markets in Asia and Latin America suffering more than most after strong recent performance

Geographical Allocation



EM exposure **Fund 12.40%** **Benchmark 13.47%**

Fund Commentary

The fund returned 3.37% in February to trail the index by 57 basis points (bps). It was a tough month for WCM and NAME as their quality growth strategies faced stiff style headwinds, but Royal London made up for most of those headwinds with almost 300 bps outperformance. At a fund level, the top contributors were a large underweight to Apple (which underperformed), nil exposure to Tesla (which fell 15%), and overweights to Anglo American, Steel Dynamics and LivaNova plc. The globally diversified mining company Anglo American benefitted from rising copper and iron ore prices, while the rally in steel prices lifted the share price of Steel Dynamics to its highest since late 2018. In the healthcare sector LivaNova outperformed on hopes of a better 2021 after a COVID-blighted 2020. The company issued guidance for 8-13% revenue growth this year, with a strong recovery in their epilepsy business the highlight. Among the top detractors from performance were overweights to some of last year's COVID-winners. Many of the COVID-winners are long-duration growth names which pulled back due to concerns of rising interest rates. Notably, MercadoLibre reported after month-end and its growth was very impressive. The company`s reported USD dollar sales grew by 97%, beating consensus by 10%. Specialist insurer Palomar underperformed as investors continued to rotate into more cyclical financial shares. Online meal kit provider HelloFresh also succumbed to profit taking, after an extremely strong run in the shares following December's very encouraging Capital Markets Day, where management confidently sketched out the drivers of strong, long-term revenue growth in the meal-kit delivery business.

Key Facts

Distributions

Generally does not distribute

Hedging

Any foreign currency exposure is gross hedged at 139% to NZD. The permitted operational hedging range is 134% to 144%.

Estimated annual fund charges (Incl. GST)

Wholesale: negotiated outside of the unit price

Retail: 1.43%, refer PDS for more details

Buy / Sell spread:	Strategy Launch	Strategy size
0.07% / 0.07%	October 2008	$113.9m

Exclusions

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

Compliance

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

Contact Us

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