

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 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 was 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

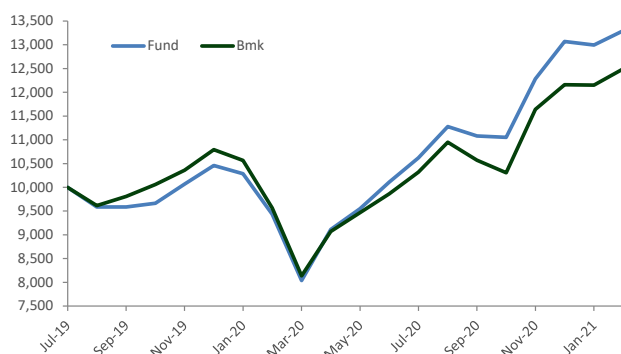
- The fund returned 2.33% for the month, behind benchmark.
- LivaNova, Deere and banking sector holdings SVB Financial and HDFC positively contributed to performance for the month.
- Palomare, HelloFresh and Kerry Group were amongst the underperformers in the fund.

Performance

	One month	Three months	One year	Three years (p.a)	Five years (p.a)
Wholesale ¹	2.33%	8.25%	40.97%		
Benchmark ²	2.80%	7.33%	30.59%		
Retail ³	3.43%	9.10%	38.12%		

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 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.

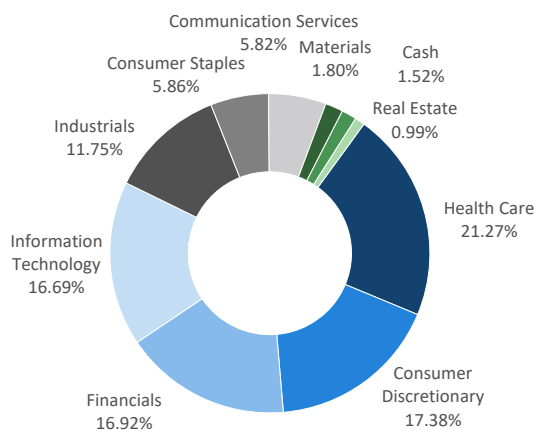
Overview

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

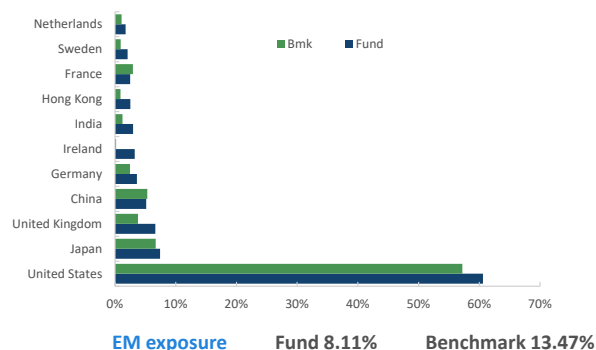
Asset Allocation



Top 10 Holdings

	Fund	MSCI	Country
Microsoft Corporation	5.28	2.78	US
Amazon.com, Inc.	4.00	2.19	US
Tencent Holdings Ltd.	3.65	0.82	China
HelloFresh SE	3.61	0.02	Germany
SVB Financial Group	3.43	0.04	US
Sony Corporation	3.41	0.22	Japan
LivaNova Plc	3.36	0.00	US
LabCorp	3.16	0.04	US
HDFC	2.97	0.00	India
Accenture Plc Class A	2.88	0.27	US

Geographical Allocation



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.

Fund Commentary

The fund lagged behind the benchmark over the month. Positives for the portfolio included **LivaNova** which outperformed this month on hopes that the business would enjoy 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. **Deere** rose 10% after publishing results that easily outstripped investor expectations and the accompanying outlook statement was encouraging, with a conservative approach taken to emerging inflationary headwinds in terms of raw materials and freight. Banking shares have enjoyed a very strong month as inflation expectations have ticked higher and bond yields rose, potentially providing a better backdrop for net interest margin expansion. Our holdings in **SVB Financial** and **HDFC** benefitted from this. Negatives for the fund included **Palomar** which underperformed as investors continued to rotate into more cyclical financial shares. **HelloFresh** succumbed to profit taking this month, 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. **Kerry Group** fell after a short seller attack on the company, claiming that the management team have used accounting methods to overstate the benefits of previously made acquisitions. (**Bold** denotes stocks held in the portfolio.)

Key Fund 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%.

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	\$164.1m

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

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