Factsheet 31 January 2022

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

- The new calendar year got off to a very rocky start for global equity markets, in sympathy with the 7% print for US inflation, spiking bond yields and hawkish Federal Reserve commentary. Long duration growth equities were hit the hardest, with the Information Technology sector in particular putting global markets under pressure.
- Although Healthcare underperformed, some defensive sectors fared better. Both Consumer Staples and Utilities outperformed – speaking to investor demand for some downside protection, in case the Federal Reserve's monetary tightening leads to a slowing in economic activity.

Fund Highlights

- The fund returned -8.34% with hedging, lagging the benchmark return by 210 basis points (bps).
- The fund benefitted from its overweight exposures to Progressive Corp, Anglo American and Suncorp Energy.
- The main detractors from performance were an underweight exposure to Apple Inc., and overweight exposures to Shopify and Old Dominion Freight Line.

Investment Manager

The multi-manager global equity strategy is managed by Yarra Capital Management's (YCM) multi-strategy team based in Sydney and Melbourne. 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

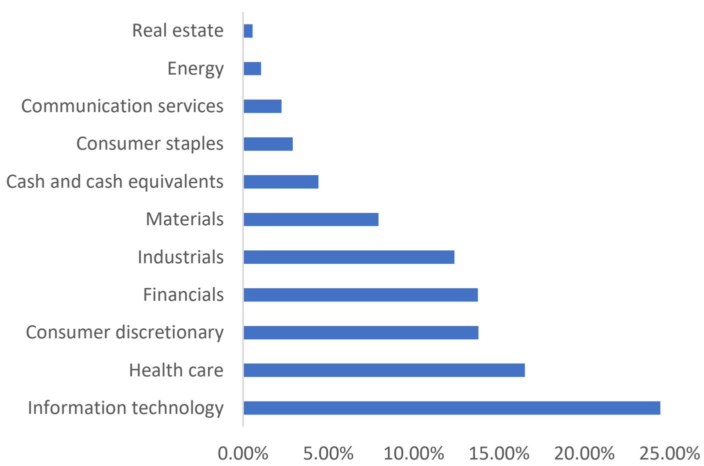
The fund aims to outperform the benchmark return by 3% per annum before fees, expenses and taxes over a rolling three-year period.

Performance

	One month	Three months	One year	Three years (p.a)	Five years (p.a)	Ten years (p.a)
Wholesale[1]	-8.34%	-7.57%	11.08%	17.14%	13.60%	14.16%
Benchmark[2]	-6.24%	-5.97%	11.45%	13.24%	10.82%	12.63%
Retail[3]	-9.98%	-9.51%	6.02%	15.22%	11.66%	

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.

Asset Allocation



A large client cash inflow resulted in the fund temporarily exceeding its 5% cash limit.

Top 10 Holdings	Fund	Country
Microsoft Corp	5.38%	US
Amazon Com Inc.	3.47%	US
Progressive Corp	2.94%	US
Anglo American Plc	2.58%	UK
Taiwan Semiconduct Manufacturing	2.23%	Taiwan
Reliance Steel & Aluminum Co	2.19%	US
Suncorp	2.09%	Canada
Alphabet Inc	2.01%	US
Steel Dynamics Inc	1.99%	US
United Health Group	1.96%	US

Manager	Allocation	Active Return
NAM Europe	27.31%	-4.62%
Royal London	44.88%	1.14%
WCM	20.59%	-7.93%
Cash & Derivatives	7.21%	n/a

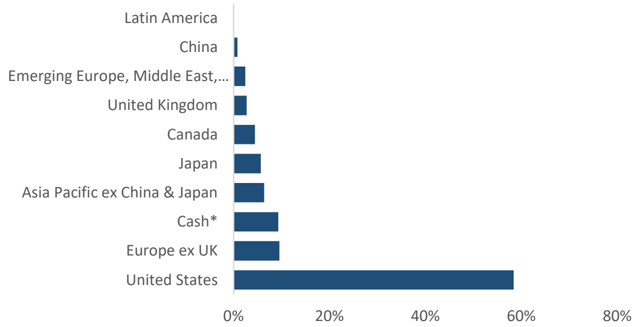
What helped		What Hurt	
Progressive Corp	OW	Shopify	OW
Anglo American	OW	Apple Inc	UW
Suncorp Energy	OW	Old Dominion Freight Line	OW

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

Market Commentary

In January investment markets started to take seriously the potential implications of a change in monetary policy direction – particularly in the US. Bond yields jumped as inflationary pressures showed little signs of abating in the early part of the year. Equity market volatility then spiked further after Fed Chairman Powell's testimony to Congress suggested that asset price deflation would not be a reason to ease off rate normalisation. January also saw a meaningful style rotation within the market. Long duration, high growth companies suffered as increased interest rate expectations fed into higher discount rates. In some cases, this sell-off was exacerbated by investor concerns that COVID had pulled forward demand, potentially making earnings growth more challenging as the threat posed by the pandemic fades. This was a particular headwind for the Information Technology as well as Healthcare and these were some of the worst performing sectors this month, with both underperforming the market by around 3% in January. Although Healthcare underperformed, some defensive sectors fared better. Both Consumer Staples and Utilities outperformed – speaking to investor demand for some downside protection, in case the Federal Reserve's monetary tightening leads to a slowing in economic activity. Neither of these sectors have tough COVID-inspired earnings comparables going into 2022. Regionally speaking, the UK was once again one of the best performers – benefitting from their relatively cheap valuation and high exposure to banking, energy and mining shares. Emerging Asia also outperformed – helped by Chinese liquidity injections. The US underperformed, due to the aggressive profit taking seen in the Technology sector and in Consumer Discretionary index heavyweights such as Tesla and Amazon.

Geographical Allocation



EM exposure Fund 8.63%

Fund Commentary

The fund returned -8.34% in January to underperform the benchmark return of -6.24%. While no doubt a disappointing result, the occasional short-term underperformance should be expected, especially when longer term performance has been so far ahead of expectations. Quality Growth strategies struggled the most in January as investor positioning whipsawed aggressively. While Royal London managed to outperform the benchmark by 114 bps, NAME (-311 bps) and WCM (-792 bps) experienced their worst month ever relative to the benchmark. Royal London's performance has been very consistent over the last 12 months, which proved to be quite a tug-of-war between value and growth. Given their consistency and exposure to both growth and value factors, we remain comfortable allocating almost half of the fund to Royal London. Stock selection was the main driver of the underperformance in January, especially in the healthcare, industrials, financials, real estate, and consumer staples sectors. Another source of underperformance was nil exposure to large companies in value-oriented industries which performed very well in January. Given the strong performance of the energy sector and the fund's underweight to that sector, this resulted in a significantly negative sector allocation effect. The fund owns only one company in the energy sector – Canada's Suncor Energy which is strategically focused on developing the Athabasca oil sands basin.

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: 1.42%, refer PDS for more details

Buy / Sell spread:	Strategy Launch	Strategy size
0.07% / 0.07%	October 2008	$101.2m

Restrictions

Investment prohibited in any security that conducts activities listed on the Schedule to the Cluster Munitions Prohibition Act 2009.
Investment prohibited in tobacco manufacturers.

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

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