

Factsheet 31 March 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

- It's an understatement to say that global equity markets had a volatile and challenging first quarter of 2022.
- In Q1, the energy sector (20.3%) had a breakout performance, as crude oil prices rose from USD 75 a barrel to over USD 100 a barrel. Materials sector (1.8%) also outperformed as many commodity prices surged to multi-year highs. Healthcare once again outperformed, but the brunt of the market's sell-off was borne by the information technology (-11.3%) and consumer discretionary (-12.4%) sectors.
- Regarding regional performance, Asian and European stocks were among the worst performing equity markets in Q1. The US (-6%) had marginal outperformance over the global Index, while the commodity and value-oriented markets of Canada (4%), Australia (4%) and the UK (0.5%) were among the top performers relative to their global peers. Brazil was an outlier with a return of 34% over the quarter, driven by very strong performance of its financials, materials and energy sectors.

## Fund Highlights

- The fund finished the month with a positive return but down for the quarter, behind benchmark.
- The fund benefitted from its overweight exposures to energy and materials sector, performers included Suncor Energy, Steel Dynamics and Anglo American.
- The main detractors from performance were e-commerce platform Shopify, trucking firm Old Dominion Freight Line and medical device company Masimo Corp.

## Performance

	One month	Three months	One year	Three years (p.a)	Five years (p.a)	Ten years (p.a)
Wholesale <sup>1</sup>	3.39%	-5.05%	9.47%	16.40%	13.81%	13.84%
Benchmark <sup>2</sup>	3.55%	-4.27%	8.20%	12.41%	10.73%	12.12%
Retail <sup>3</sup>	5.22%	-4.01%	9.63%	15.65%	12.51%	

1. Returns are before tax and before the deduction of fees. Based on actual calendar periods.

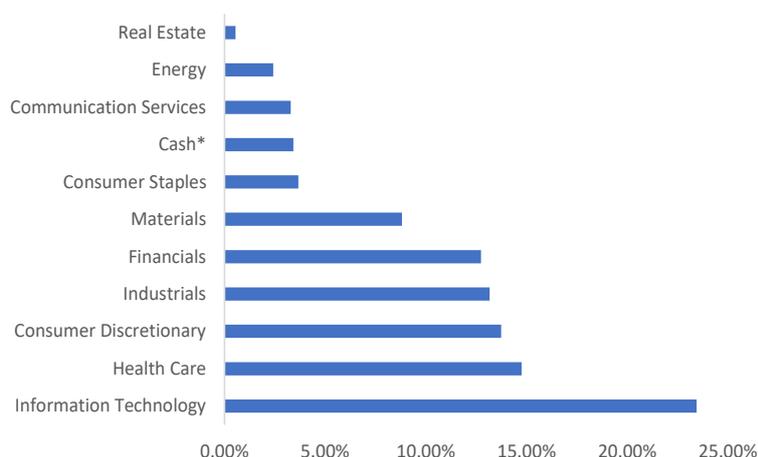
2. Benchmark: MSCI All Countries World Index (net dividends reinvested) 139% gross hedged to NZD. No tax or fees.

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 <sup>1,2</sup>



## Asset Allocation



## 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.

Top 10 Holdings	% of Fund	Country	Manager	Allocation	Active Return
Microsoft Corp	6.02%	US	NAM Europe	29.29%	-1.78%
Amazon Com Inc	3.73%	US	Royal London	48.07%	5.49%
Progressive Corp	2.57%	US	WCM	21.08%	-10.92%
Anglo American Plc	2.46%	UK	Cash & Derivatives	1.56%	n/a
Steel Dynamics Inc	2.40%	US			
Suncor Energy Inc	2.34%	Canada			
Reliance Steel & Aluminum Co	2.11%	US			
Unitedhealth Group Inc	1.92%	US			
Alphabet Inc	1.85%	US			
Visa Inc - A	1.78%	US			

What helped	What Hurt
Steel Dynamics	OW Shopify Inc OW
Anglo American plc	OW Old Dominion Freight Line OW
Suncor Energy	OW Masimo Corp OW

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

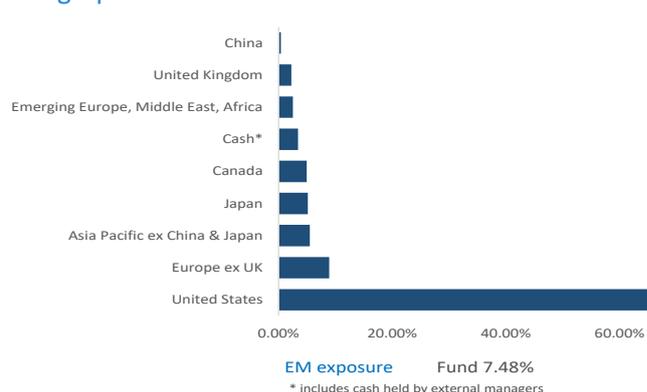
### Market Commentary

The Russian invasion of Ukraine on 24 February 2022 is the most significant military event in Europe since the Battle of Berlin at the end of World War 2 in 1945. Economic sanctions affected Russia from the first day of the invasion, with the Russian stock market (RTS Index) falling by up to 39%. The Russian rouble fell to record lows, while stock exchanges in Moscow and St. Petersburg were suspended until late March, making it the longest closure in Russia's history. Much of the country's USD 630 billion of reserves were rendered inaccessible by a freeze on the Bank of Russia's assets, Russia's ability to transact in foreign currencies was limited by the EU, US and other G7 partners, and prominent Russian banks were removed from the Swift payments network. The Nord Stream 2 natural gas pipeline under the Baltic Sea between Russia and Germany was cancelled, resulting in natural gas prices in Europe reaching an all-time high of 225 euros per megawatt-hour in early March. The Brent oil price also rose above USD 130 a barrel for the first time since 2008. Global equity markets had a volatile and challenging first quarter of 2022. In Q1, the energy sector (20.3%) had a breakout performance, as crude oil prices rose from USD 75 a barrel to over USD 100 a barrel. The materials sector (1.8%) also outperformed the Index over the quarter as many commodity prices surged to multi-year highs. The healthcare sector once again outperformed, but the brunt of the market's sell-off was borne by the information technology (-11.3%) and consumer discretionary (-12.4%) sectors. "Value" had a negative return of -2.0% over Q1, "Growth" -10.7% and "Quality" at -9.4%. US inflation has surged to its highest level in 40 years.

### Fund Commentary

The fund had a challenging first quarter with a return of -5.05% which was -78 bps relative to the benchmark return of -4.27%. The direct impact of the plunge in the Russian stock market on the fund is negligible - no Russian securities have been held since October 2011. The top performing energy and materials sectors were the main sources of positive stock selection with Suncor Energy, Anglo American, Steel Dynamics and Reliance Steel the highlights. Outside of the commodity sectors, the financials sector also had a number of winners including Progressive Corp and KB Financial Group. The Canadian internet services business and e-commerce platform Shopify was the fund's worst performer in terms of absolute return over the quarter, followed by the medical devices company Masimo Corp and the trucking company Old Dominion Freight Line. Shopify, a top performer in 2020 and 2021, has fallen on hard times recently, having lost -52% of its share price year to date. It benefitted tremendously during the COVID-19 lockdowns but has experienced 0% growth in its revenue for the past 12 months. Old Dominion Freight Line, one of Royal London's best performers over the last three years, was a major detractor from performance over the quarter. Although its share price fell -18% over the quarter, it had a very strong 2021 calendar year with a return of 93%. The medical devices company Masimo Corp was another key detractor from performance over the quarter. Most of Masimo's sell-off came in January and February following the company's announcement of its planned acquisition of Sound United, a maker of high-performance audio products such those by Denon, Marantz, and Boston Acoustics. Investors struggled to understand the strategic rationale behind the deal and felt concerned about the USD 1 billion price tag attached to it.

### Geographical Allocation



### Key Facts

<b>Distributions</b> Generally does not distribute	<b>Estimated annual fund charges (Incl. GST)</b>
<b>Hedging</b> Any foreign currency exposure is gross hedged at 139% to NZD. The permitted operational hedging range is 134% to 144%.	Wholesale: negotiated outside of the unit price
<b>Restrictions</b> Investment prohibited in any security that conducts activities listed on the Schedule to the Cluster Munitions Prohibition Act 2009. Investment prohibited in tobacco manufacturers.	Retail: 1.42%, refer PDS for more details
	<b>Buy/Sell spread</b> 0.07%/0.07%
	<b>Strategy Launch</b> October 2008
	<b>Strategy size</b> \$106.1m

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

**Contact Us** [www.nikkoam.co.nz](http://www.nikkoam.co.nz) | [nzenquiries@nikkoam.com](mailto:nzenquiries@nikkoam.com)

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