

Factsheet 30 September 2022

# NIKKO AM GLOBAL EQUITY UNHEDGED STRATEGY

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

## Market Overview

- Global equity markets suffered another miserable quarter as investors lost just short of 7% in US dollar terms, confirming that we are indeed in the midst of a bear market. Unhedged New Zealand investors were however shielded by foreign currency gains versus the local currency, with the global equity benchmark rising 2.42% (NZD, unhedged) over the third quarter. The NZD fell more than 10% over the quarter to 0.56 against the US dollar.
- With continued high US inflation the Fed will remain hawkish for the foreseeable future. Global economic data has continued to drift slowly lower, stoking fears over a 2023 recession.

## Fund Highlights

- The worst performing sectors this quarter were some of the market leaders of the last cycle. Information technology and communication services meaningfully underperformed, as investors weighed cooling revenue growth and higher discount rates. Interest rate sensitive sectors, the energy and consumer discretionary sectors, outperformed during the quarter, perhaps indicating a level of investor fatigue when it comes to selling consumer facing companies and hinting that investors might start positioning for the next bull market.

## Performance

	One month	Three months	One year	Three years (p.a)	Five years (p.a)	Ten years (p.a)
Wholesale <sup>1</sup>	-1.68%	3.16%	-2.32%	11.67%	12.67%	13.74%
Benchmark <sup>2</sup>	-1.99%	2.42%	-3.24%	7.37%	9.69%	11.80%
Retail <sup>3</sup>	-2.27%	2.29%	-4.06%	10.99%	11.63%	

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.

## Five Year Cumulative Performance (gross), \$10,000 invested <sup>1,2</sup>



## 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.

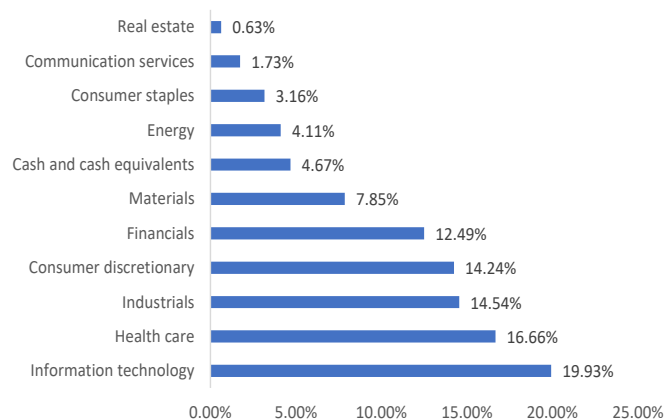
## Overview

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 unhedged.

## 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	% of Fund	Country	Manager	Allocation	Active Return
Microsoft Corp	5.94%	US	NAM Europe	31.25%	-1.20%
Amazon Com Inc	3.44%	US	Royal London	45.94%	0.76%
UnitedHealth Group Inc.	2.73%	US	WCM	21.84%	3.84%
Progressive Corp	2.60%	US	Cash & Derivatives	0.97%	n/a
Reliance Steel & Aluminum Co	2.40%	US			
Old Dominion Freight Line Inc.	2.33%	US			
Suncor Energy Inc	2.13%	Canada			
Visa Inc	2.03%	US			
Anglo America Plc	2.02%	UK			
Constellation Software	1.89%	Canada			

What helped	What Hurt
Reliance Steel	o/w Apple Inc u/w
HCA Healthcare	o/w Tesla Inc u/w
Steel Dynamics	o/w Lithia Motors o/w

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

## Market Commentary

Global equity markets suffered another miserable quarter as investors lost just short of 7% in US dollar terms, confirming that we are indeed in the midst of a bear market. Unhedged New Zealand investors were however shielded by foreign currency gains versus the local currency, with the global equity benchmark rising 2.42% (NZD, unhedged) over the quarter. The NZD fell more than 10% over the quarter to 0.56 against the US dollar.

The hopes of a pivot towards less hawkish monetary policy from the Federal Reserve continued to fade away, as inflation once again surprised to the upside in the US and interest rate expectations moved higher.

## Fund Commentary

The fund had a strong quarter with a return of 3.16% to outperform the benchmark return of 2.42% by 74 bps.

WCM's large outperformance over the quarter was driven by several sector allocation and stock selection effects. They have no exposure to the poor performing communication services and real estate sectors but have a significant overweight to the outperforming industrials sector. Their top overweights in that sector are Waste Connections (environmental services), Old Dominion Freight Line (trucking) and Graco Inc (flow control equipment). WCM's stock selection was positive in all sectors over the quarter, but strongest in the industrials, healthcare, information technology and financial sectors. Double-digit gains by LPL Financial Holdings (31.5%), Waste Connections (21.2%), Amphenol (15.7%), Snowflake (35.6%) and Repligen (27.8%) drove much of WCM's outperformance.

The fund's top individual contributors to performance over the quarter were Reliance Steel, HCA Healthcare, Steel Dynamics, Palomar Holdings and Progressive Corp. Palomar was the highlight with a gain of 44% over the quarter. The specialist insurance company posted another very strong quarterly earnings report that has given investors far more conviction in management's ability to execute. Premiums grew 69% in the quarter driven by strong pricing in all product lines, as well as the introduction of new products in particular the fronting business. Profitability also remained very strong despite the strong growth. The fund's main laggards were Lithia Motors and AIA Group, although the top detractors were an underweight to Apple, and nil exposure to Tesla and Exxon Mobil. The shares of those three companies all outperformed over the quarter.

## Key Facts

**Distributions** Generally does not distribute

**Hedging** Any foreign currency exposure is unhedged

**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.

### Estimated annual fund charges (Incl. GST)

Wholesale: negotiated outside of the unit price

Retail: 1.42%, refer PDS for more details

**Buy / Sell spread** 0.07% / 0.07%

**Strategy Launch**

October 2008

**Strategy size**

\$203.6m

## Compliance

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

## Contact Us

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## Geographical allocation

