Factsheet 31 October 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

- October was a better month for global equities, with the MSCI ACWI climbing around 6% in US Dollar terms. As ever, these days, the driver of the recovery was the hope / expectation of a gradual shift in approach by the US Federal Reserve, when setting monetary policy. Economic data has continued to accumulate, suggesting that the Fed has already tightened money supply enough to lead to a marked slowdown in economic activity in the US (and globally) during 2023, with year-on-year growth in gauges such as M2 almost in contraction now – following months of unsustainable expansion during the early stages of the global COVID pandemic.

Fund Highlights

- Royal London (+211 bp) was the main driver of the month's outperformance with a return of 5.35%. NAME (+4 bps) was marginally ahead of the benchmark with a return of 3.28%, while WCM (-35 bps) trailed but still generated a strong return of 2.89%.
- The main sources of value add were: underweights to the poor performing communication services, real estate and utilities sectors, overweights to the outperforming industrials and healthcare sectors, nil exposure to underperforming Chinese equities, stock selection in the consumer discretionary and materials sectors
- Relative performance was negatively impacted by: underweight to the outperforming energy sector, overweight to the underperforming consumer discretionary sector, stock selection in the information technology and consumer staples sectors.

Performance

	One month	Three months	One year	Three years (p.a)	Five years (p.a)	Ten years (p.a)
Wholesale[1]	4.19%	0.40%	0.52%	13.03%	11.93%	14.12%
Benchmark[2]	3.24%	-0.32%	-1.40%	8.36%	8.77%	12.12%
Retail[3]	4.21%	1.70%	0.09%	11.62%	10.96%	

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.

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

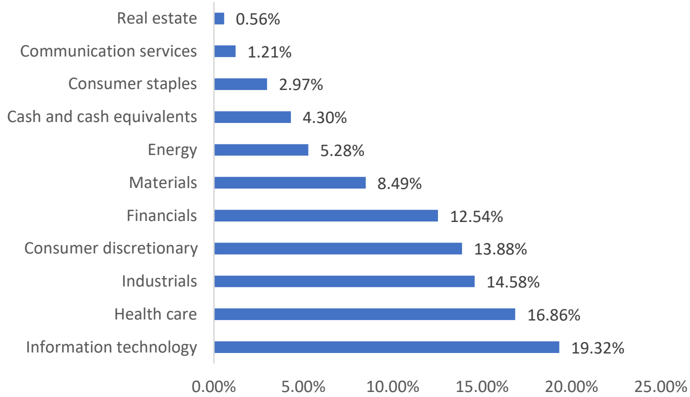
This fund aims to provide investors with long term growth from an actively managed investment portfolio selected from global equity markets. Currency exposures created as a consequence of global equity investment are unhedged.

Objective

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

Five Year Cumulative Performance (gross), $10,000 invested [1,2]

Asset Allocation



Top 10 Holdings	% of Fund	Country
Microsoft Corp	5.32	US
Amazon Com Inc	3.18	US
UnitedHealth Group Inc.	2.87	US
Progressive Corp	2.79	US
Reliance Steel & Aluminum Co	2.58	US
Suncor Energy Inc	2.58	Canada
Old Dominion Freight Line Inc.	2.48	US
Steel Dynamics Inc	2.27	US
Visa Inc	2.26	US
Lilly (Eli) & Co	2.05	US

Manager	Allocation	Active Return
NAM Europe	30.26%	0.00%
Royal London	47.42%	2.11%
WCM	21.11%	-0.35%
Cash & Derivatives	1.22%	n/a

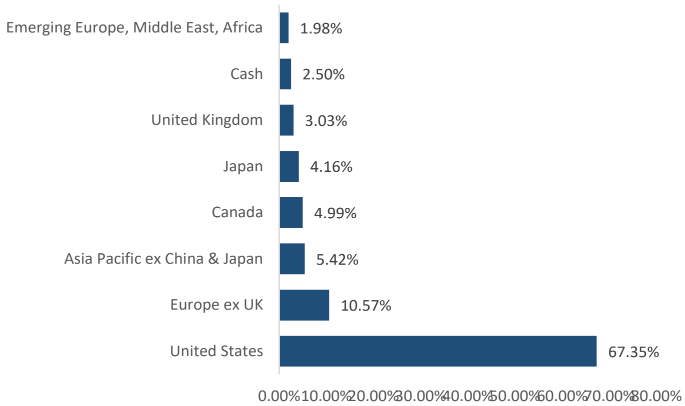
What helped		What Hurt	
Steel Dynamics	o/w	Amazon.com	o/w
Baker Hughes	o/w	Carlisle Companies	o/w
Tesla Inc	n/h	Apple Inc	u/w

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

Market Commentary

October was a better month for global equities, with the MSCI ACWI climbing around 6% in US Dollar terms. As ever, these days, the driver of the recovery was the hope / expectation of a gradual shift in approach by the US Federal Reserve, when setting monetary policy. Economic data has continued to accumulate, suggesting that the Fed has already tightened money supply enough to lead to a marked slowdown in economic activity in the US (and globally) during 2023, with year-on-year growth in gauges such as M2 (US money stock held by the non-bank public) almost in contraction now – following months of unsustainable expansion during the early stages of the global COVID pandemic. The best performing sector this October was (once again) Energy. Although oil prices have remained well below levels seen earlier in the year, there remains a sense that this is due to a combination of short-term factors that are likely to resolve more quickly than new reserves can be discovered and brought onstream. The US Strategic Petroleum Reserve has already been depleted significantly and Chinese demand won't be restrained by its zero-COVID policy forever. Industrials were the other major outperformers, with strength being seen across sub-sectors – from aerospace and defence to more traditional capital goods providers (like Caterpillar). The worst performers in October were a combination of traditionally defensive sectors (such as Utilities and Real Estate) and sectors where benchmark heavyweights had a pronounced impact on returns. This was true in both Communication Services (where the decline in digital advertising saw significant share price weakness in Meta and Alphabet) and Consumer Discretionary (where the main culprits were Amazon and Tesla – both of whom have disappointed investors with their latest set of financial results).

Geographical allocation



EM exposure Fund 5.77%

Fund Commentary

The fund outperformed the benchmark return in October and performance continues to be exceptionally strong over the longer term as well - over the three-year period to 31 October 2022, the fund returned 13.01% p.a., outperforming the Benchmark return of 8.36% p.a. by a very significant margin of 4.65% p.a. This level of outperformance was generated with a relatively low ex-post tracking error of 3.64%. In risk-adjusted terms, this equates to an information ratio (outperformance / tracking error) of 1.28. Royal London (+211 bps) was the main driver of the month's outperformance with a return of 5.35%. NAME (+4 bps) was marginally ahead of the benchmark with a return of 3.28%, while WCM (-35 bps) trailed but still generated a strong return of 2.89%. NAME's allocation remains around 30% while WCM is at 22%, with the balance of 1.5% held in cash. Royal London's holdings made the largest contribution to the fund's outperformance in October. NAME benefitted from Elevance Health, Encompass Health and Deere & Co, while Carlisle Companies, Taiwan Semiconductor and Tenet Healthcare were its top detractors. For WCM, its top performers in October were LPL Financial Holdings, Visa Inc and Amphenol Corp, while AIA Group, Pernod Ricard and Waste Connections detracted the most value.

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	Strategy size
October 2008	$203.6m

Compliance

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

Contact Us

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