

Factsheet 31 December 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

- Although the gradual recovery seen in global equity markets in October and November lost momentum in December, Q4 was still positive for global equity markets – reversing some of the steep losses seen earlier in the year. Whereas December saw more hawkish commentary from the Federal Reserve (which has been a constant refrain this year), credit markets (and financial conditions) have loosened slightly during the quarter on the belief that peak interest rates for this tightening cycle are not far above current levels.

Fund Highlights

- The fund performed in line with its benchmark over the quarter.
 - Royal London (0.28%) was once again the key driver of the quarter's outperformance, leading the benchmark by 211 bps. WCM's large underperformance over the quarter was driven by the underperformance of several of their technology-related businesses, the key ones being Amazon.com, Atlassian plc, Microsoft and Datadog.

Performance

	One month	Three months	One year	Three years (p.a)	Five years (p.a)	Ten years (p.a)
Wholesale ¹	-4.86%	-1.73%	-11.00%	10.39%	10.74%	13.09%
Benchmark ²	-5.66%	-1.83%	-11.63%	6.27%	7.73%	11.24%
Retail ³	-3.29%	-2.06%	-12.06%	9.35%	9.54%	11.80%

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 ^{1,2}



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.

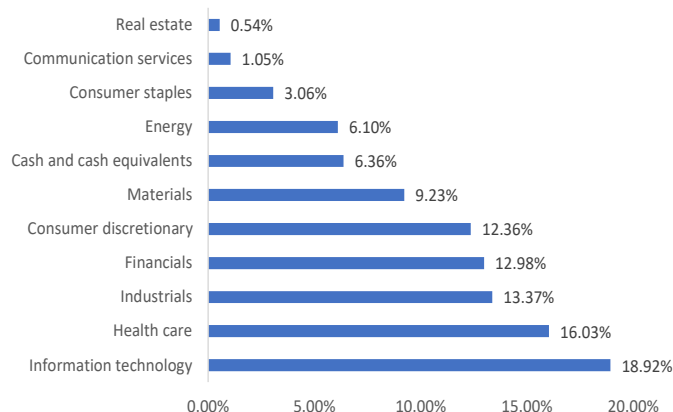
Overview

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	4.96	US	NAM Europe & NZD Cash	29.86%	3.26%
Amazon Com Inc	2.96	US	Royal London	45.33%	2.11%
UnitedHealth Group Inc.	2.91	US	WCM	21.30%	-4.44%
Visa Inc	2.63	US	Cash & Derivatives	3.51%	n/a
Progressive Corp	2.57	US			
Reliance Steel & Aluminium Co	2.27	US			
Steel Dynamics Inc	2.17	US			
Old Dominion Freight Line Inc	2.06	US			
Constellation Software	1.94	CA			
Lilly (Eli) & Co	1.88	US			

What helped		What Hurt	
Steel Dynamics	o/w	Amazon.com	o/w
Sumitomo Mitsui	o/w	Palomar Holdings	o/w
Apple Inc	u/w	Atlassian plc	o/w

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

Market Commentary

Although the gradual recovery seen in global equity markets in October and November lost momentum in December, Q4 was still positive for global equity markets – reversing some of the steep losses seen earlier in the year. Whereas December saw more hawkish commentary from the Federal Reserve (which has been a constant refrain this year), credit markets (and financial conditions) have loosened slightly during the quarter on the belief that peak interest rates for this tightening cycle are not far above current levels.

The best performing sectors this quarter were those that would have the most to gain from a return to Chinese economic activity levels seen in the past. Energy, Industrials and Materials all outperformed. December's light risk-off tone was not enough to change this picture but did allow some of the defensive sectors (Healthcare) to get back into positive territory relative to the market over the quarter. The weakest sectors continued to hint at a shift in market leadership – away from the sectors that led the market during the years of monetary easing. The fate of individual, large index constituents didn't help either. For instance, the weakest performers over the quarter included Consumer Discretionary and Communication Services, as Tesla, Amazon, Meta and Google all fell over the quarter – following weak financial results. The falls in Tesla's share price have been particularly severe, as evidence emerges that even steep discounting is not leading to a pick-up in deliveries.

Fund Commentary

The fund performed in line with its benchmark over the quarter. Royal London (0.28%) was once again the key driver of the quarter's outperformance, leading the benchmark by 211 bps. We remain comfortable with the fund's 45-50% allocation to their style neutral strategy in the current environment. NAME returned -1.71% over the quarter to outperform the benchmark by 12 bps, while WCM (-6.27%) had a poor quarter to underperform by a rather large margin of 444 bps. The fund's top individual contributors to performance over the quarter were overweights to Steel Dynamics (materials), Sumitomo Mitsui Financial Group (financials) and Safran SA (industrials) which all gained more than 20% over the quarter. Nil exposure to Tesla, which plunged 59% over the quarter, and a large underweight to Apple, which fell 16%, also made positive contributions to performance. Amazon.com and Palomar Holdings were the top detractors from performance over the quarter, followed by Atlassian plc, Lithia Motors and Chart Industries. WCM's large underperformance over the quarter was driven by the underperformance of several of their technology-related businesses, the key stocks being Amazon.com, Atlassian plc, Microsoft and Datadog. They also suffered from profit taking in some of their top-performing holdings, for example UnitedHealth Group, LPL Financial Holdings and Waste Connections. While WCM's portfolio is less expensive today with a P/E ratio of 30x (compared to 44x a year ago), it remains at a large premium to the benchmark (P/E of 15x). They are also more expensive than the portfolios of NAME (P/E of 24x) and Royal London (P/E of 10.8x) and coupled with the fact that WCM's performance is the most volatile of the three managers, we will continue to allocate less than 25% of the fund to them.

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

\$198.4m

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

Contact Us www.nikkoam.co.nz | nzenquiries@nikkoam.com

This document is issued by Nikko Asset Management New Zealand Limited (Company No. 606057, FSP No. FSP22562), the investment manager of the Nikko AM NZ Investment Scheme, the Nikko AM NZ Wholesale Investment Scheme and the Nikko AM KiwiSaver Scheme. This information is for the use of researchers, financial advisers and wholesale clients. This material has been prepared without taking into account a potential investor's objectives, financial situation or needs and is not intended to constitute personal financial advice, and must not be relied on as such. Recipients of this document, who are not wholesale investors (in accordance with Schedule 1, Clause 3 Financial Markets Conduct Act 2013), or their duly appointed agent, should consult a Financial Advice Provider and the relevant Product Disclosure Statement. Past performance is not a guarantee of future performance. While we believe the information contained in this presentation is correct at the date of presentation, no warranty of accuracy or reliability is given and no responsibility is accepted for errors or omissions including where provided by a third party. For full details on the fund, please refer to our Product Disclosure Statement on nikkoam.co.nz.

Geographical allocation

