

# NIKKO AM GLOBAL SHARES UNHEDGED STRATEGY

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

## Market Overview

- Q1 has been a good quarter for global equities, with the index rising more than 8% (in NZD terms).
- Q1 was not without volatility – particularly in March. The month started relatively quietly, with equity markets consolidating gains made earlier in the year. Then came the Silicon Valley Bank collapse.
- Information Technology was one of the largest beneficiaries (along with Communication Services) and was one of the strongest performing sectors this quarter. Other sectors that outperformed included Consumer Discretionary. The worst performing sector was Financials – with banks faring particularly badly.

## Fund Highlights

- The fund posted a return of 4.48% over the quarter, 399 basis points behind the benchmark.
- Underperformance can be attributed to an overweight to the poor performing healthcare sector and significant underweight to the top performing communication services and information technology sectors.
- Main detractors Adaptive Corporation, Box Inc and Schlumberger.
- Positive contributors to fund performance over the quarter were Booking Holdings, Amadeus IT and Masimo Corporation. Performance

## Performance

	One month	Three months	One year	Three years (p.a)	Five years (p.a)
Wholesale <sup>1</sup>	0.28%	4.48%	0.83%	13.59%	12.47%
Benchmark <sup>2</sup>	2.08%	8.47%	2.90%	13.31%	10.02%
Retail <sup>3</sup>	-2.45%	2.87%	-2.01%	12.10%	10.97%
KiwiSaver <sup>3</sup>	-2.46%	2.87%	-2.02%	12.19%	11.01%

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.

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



## Investment Manager

The Global Shares Strategy is managed by Nikko AM's Global Equity team that is based in Edinburgh, Scotland. With over 20 years average experience, team members have dual roles of portfolio manager and analyst responsibility and work together on an equal basis to construct client portfolios. This flat investment structure and investment process has been in place since the team's foundation.

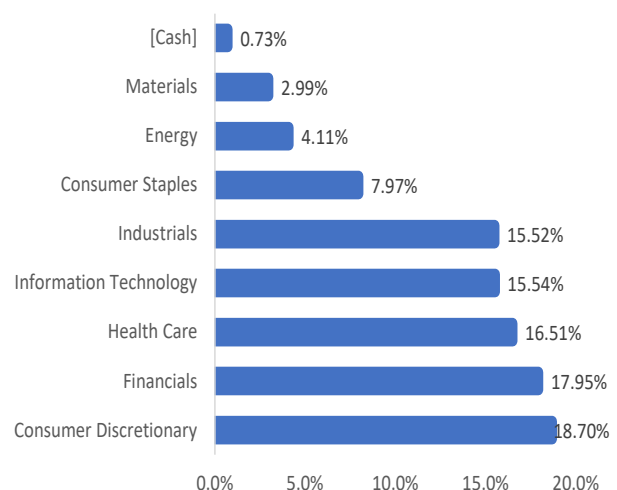
## Overview

The fund provides investors with a relatively concentrated actively managed portfolio of global equities to achieve long term capital growth.

## Objective

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

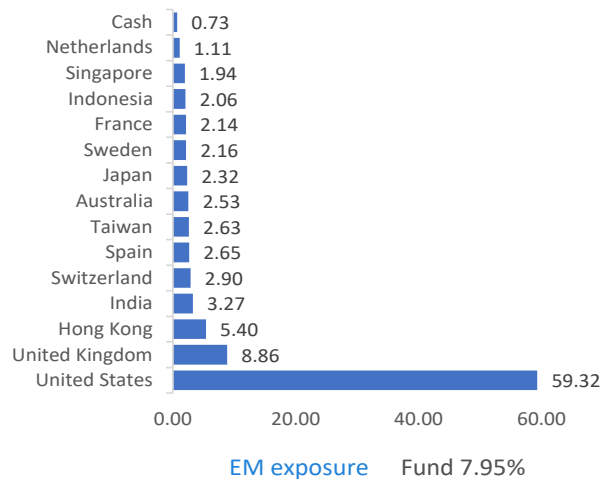
## Sector Allocation



Top 10 Holdings

	% of Fund	Country
Microsoft Corp	6.12	United States
Compass Group	3.50	United States
HDFC Bank Ltd	3.24	India
Linde Plc	2.96	Ireland
Booking Inc	2.90	United States
Progressive Corp	2.88	United States
Nestle	2.88	Switzerland
Schlumberger Intl	2.82	United States
Samsonite Intl	2.75	Luxembourg
KBR Inc	2.66	United States

Geographical Allocation



Market Commentary

Q1 has been a good quarter for global equities, with the index rising more than 8% (in NZD terms). Having been down almost 30% at one stage during 2022, the benchmark has now recovered about half of those losses. Q1 was not without volatility, however – particularly in March. The month started relatively quietly, with equity markets consolidating gains made earlier in the year. Then came Silicon Valley Bank (the 16th biggest bank in the US at the time, in terms of consolidated assets) collapse on 10 March. Other regional banks suffered deposit flight consequently, with Signature Bank also failing. Gauges of financial conditions tightened on the announcement of SVB’s failure but quickly loosened again as the Federal Reserve stepped in. Similarly, BBB spreads widened before ending the month relatively unchanged. One of the more lasting impacts of these developments was on interest rate expectations. Information Technology was one of the largest beneficiaries (along with Communication Services) and was one of the strongest performing sectors this quarter. Other sectors that outperformed included Consumer Discretionary. The worst performing sector was Financials – with banks faring particularly badly. This dragged them towards the bottom of the pile over the quarter. Real Estate also underperformed significantly. Other sectors that failed to keep up with the market included Energy (as the oil price declined – driven by expectations of weaker demand, rather than any uplift in supply) and Healthcare (as cyclical sectors generally outperformed).

Fund Commentary

The fund posted a return of 4.48% over the quarter, 399 basis points behind the benchmark. Positive contributors to fund performance over the quarter were Booking Holdings, Amadeus IT and Masimo Corporation. Our travel-related stocks have enjoyed a good quarter as travel volumes continue their recovery, after the disruption caused by COVID-19 travel restrictions. Both Booking Holdings and Amadeus IT Group have been among our strongest performers this quarter as a result. Masimo Corporation continued its recovery (after the weakness triggered by the acquisition of Sound United last year). The company issued solid results on the last day of February, with strong organic growth in its core healthcare business and a better than expected showing from Sound United. With the company about to start introducing a wave of exciting new products, we expect it to beat guidance that they increased in February. The upcoming litigation with Apple could also deliver a significant upside surprise and there is nothing in consensus to model for this. Main detractors Adaptive Corporation, Box Inc and Schlumberger. AdaptHealth Corporation has underperformed this quarter after they disappointed the market at the end of February. Confidence in management has been damaged considerably after two downward revisions to full year guidance in quick succession. Customer demand looks well underpinned, (as shown by strong trading at ResMed, Dexcom & others in medtech) this should allow them to deliver better operating performance in the coming months. Management remain confident that they will deliver strong sales and profit growth this year (and beyond) as a result. Shares in Box, Inc. fell heavily at the start of March after slightly disappointing results, where management noted a 10% reduction in technology investment spending by their customers. Management remain very confident in their market position. They also noted continued improvement in revenue mix – with their bundled product suite now 46% of total sales and expected to rise to 90% over time. These revenues are stickier and enjoy higher margins. With growth very likely to reaccelerate post this macro weakness & valuation supportive, we remain confident in the investment case. Energy stocks have underperformed this year after their exceptionally strong performance in 2022 and with mean reversion taking place in equity markets. Fears over the demand impact of a marked slowdown in US economic activity in H2 (as a result of the combined impact of interest rate hikes and the stress in the regional banking sector) have not helped our holding in Schlumberger N.V. either.

Key Fund Facts

**Distributions:** Generally does not distribute

**Exclusions:** Controversial weapons. Tobacco manufacturers.

**Restrictions** Adult entertainment, gambling, fossil fuels, alcohol stocks. For more information, please refer to the Statement of Investment Policy and Objectives (SIPO) which can be found on our website <https://www.nikkoam.co.nz/invest/retail>.

Estimated annual fund charges

Wholesale: negotiated outside of the unit price  
 Retail 1.20%, refer to PDS for more details  
 KiwiSaver 1.15% refer to PDS for more details

Buy / Sell spread:	Strategy Launch	Strategy size
0.07%/0.07%	July 2017	\$548m

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

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